

12<sup>th</sup> November, 2018

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

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

**Scrip Code: 532706**

**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 Monday, 22<sup>nd</sup> October, 2018. 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.

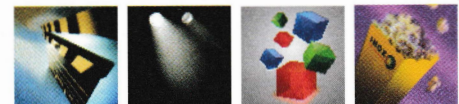
Thanking you,

Yours faithfully,  
**For INOX Leisure Limited**



**Parthasarathy Iyengar**  
Company Secretary

**Encl.: As above.**





“INOX Leisure  
Q2 FY2019 Earnings Conference Call”

October 22, 2018



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

**MANAGEMENT: MR. DEEPAK ASHER – DIRECTOR & GROUP HEAD –  
CORPORATE FINANCE – INOX GROUP OF COMPANIES  
MR. ALOK TANDON – CHIEF EXECUTIVE OFFICER – INOX  
LEISURE  
MR. KAILASH B GUPTA – CHIEF FINANCIAL OFFICER –  
INOX LEISURE**

**Moderator:** Ladies and gentlemen, good day, and welcome to the INOX Leisure Q2 FY2019 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 “\*” then “0” on your touchtone phone. 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, Stanford. Hi, good afternoon everyone. I would like to thank all of you for dialing into INOX Leisure post result earnings call for the quarter and half-yearly ending September 2018. The call will be initiated with a brief management discussion on the quarter and H1 performance followed by an interactive Q&A session. As usual, the management team will be represented by Mr. Deepak Asher, Director & Group Head, Corporate Finance, INOX Group of Companies, Mr. Alok Tandon, CEO, INOX Leisure, and Mr. Kailash B Gupta, CFO, INOX Leisure. Over to you Mr. Asher for initial comments.

**Deepak Asher:** Thanks very much Ankur. On behalf of the board and the management of INOX Leisure Limited, it gives me great pleasure to welcome all of you. I would like to thank you for the time and the interest you have shown in tracking the performance of this company. The meeting of the Board of Directors concluded about a couple of hours ago, wherein apart from other things, the board approved the quarterly financial results for the quarter ended September 2018 or what we would otherwise call Q2 FY2019. These results have been uploaded on the website of the company. They have also been submitted to both the Bombay and the National Stock Exchanges for uploading on their respective websites. I trust you would have the opportunity of taking a look at them. We have in addition to the financial results in the statutory format, also uploaded quarterly earnings presentation. We will take you through some of the key features of the earnings, both financial as well as operating parameters for the quarter and then as Ankur mentioned will open this for any questions you might have.

We are doing a Y-on-Y comparison, which is Q2 FY2019 is being compared to Q2 FY2018 and H1 FY2019 is being compared to H1 FY2018. Revenue from operations went up by 17% from Rs.311 Crores to Rs.365 Crores. EBITDA remained almost flat at Rs.44.4 Crores last year versus Rs.44.8 Crores this year. EBITDA margin therefore shrunk from 14.3% to 12.3%. PAT improved again, very marginally, from Rs.11.7 Crores to Rs.12 Crores for the quarter. That is an increase of 2% PAT margin, therefore, fell from 3.8% to 3.3%. Those were the numbers for the quarter. For the half year, revenue from operations went up by 12% from Rs.699 Crores to Rs.780 Crores. EBITDA improved by 7% from Rs.120 Crores to Rs.128 Crores. EBITDA margin fell marginally from 17.2% to 16.4%. PAT improved by 12% from Rs.43.8 Crores to Rs.49 Crores. PAT margin remained almost flat, 6.3%.

Now if you look at the breakup of revenues. As you all know, our revenues comprise of four key streams net box office, net food and beverage, advertisement and other operating revenues. So

for the quarter, the net box office figures went up from Rs.186 Crores to Rs.206 Crores that is a growth of 11%, food and beverage went up from Rs.67.1 Crores to Rs.94.9 Crores that is a growth of 41%, advertising income went up from Rs.32.1 Crores to Rs.37.8 Crores that is a growth of 17.8% and other operating revenues remained almost flat Rs.26.4 Crores went down marginally to Rs.26.2 Crores, as a result of which total revenues went up from Rs.311.3 Crores to Rs.365.3 Crores.

Figures for the half year, revenues from net box office went up from Rs.425 Crores to Rs.448 Crores that is a growth of 6%, F&B revenues went up from Rs.155 Crores to Rs.206 Crores that is a growth of 33%, advertising income went up from Rs.65.5 Crores to Rs. 77.9 Crores that is a growth of 19% and other operating income went down from Rs.53 Crores to Rs.47 Crores that is a degrowth of about 9%, as a result of which total revenues for the half year went up from Rs.698 Crores to about Rs.780 Crores that is a growth, as I mentioned, of about 12%.

Net box office revenues now comprise of 56.5% of our total revenues. F&B comprises of 26%, which is up from 21.5%, advertising comprises of 10.4% and other operating revenues comprise of 7.2% of our total revenues for the quarter.

Now this performance was largely on the back of some significant releases that happened in the last quarter. These included Sanju, which had footfalls of 23.1 lakhs and a GBOC, a Gross Box-office collection of Rs.51.2 Crores. Stree had footfalls of 12.98 lakhs and a GBOC of Rs.22.94 Crores. Gold did footfalls of 9.91 lakhs and had a GBOC of Rs.21.54 Crores. Mission: Impossible, 8.67 lakhs of footfalls, Rs.17.50 Crores of GBOC and Dhadak did 7.4 lakh footfalls and GBOC of Rs.13.52 Crores. The top five films for the quarter, therefore, accounted for about 62.06 lakhs of footfalls that is 45% of the quarterly footfalls and GBOC of Rs.126.69 Crores, which is 47% of the quarterly GBOC. As compared to last year Q2FY18, the top five films did 28% of footfalls and 30% of GBOC.

So that was the content flow now coming into some of the parameters behind the financial numbers. Overall footfalls improved from 127.5 lakhs to 136.7 lakhs that is an increase of 7.2%, but that as you know was largely because our number of properties went up. Occupancies remain at about 25% in Q2 FY2019 as compared to Q2 FY2018.

For the half year, footfalls improved from 285.7 lakhs to 292.9 lakhs. Occupancies actually fell from 28% to 27% and that is because while footfalls increased by 2.5% that is probably because our number of screens went up by about 9%. On comparable properties basis, which is in the retail trade known as same-store basis, footfalls for the quarter actually fell from 118.3 lakhs to 116.8 lakhs that is a fall of about 1.3%. Occupancies remained at 25% on the same store basis and for the half year, footfalls fell by 2.6% from 258.6 lakhs to 251.8 lakhs. Occupancies fell from 28% to 27%. Clearly, therefore, content in this quarter was not as good as content was in the same quarter last year.

Overall average ticket price has improved from Rs.186 to Rs.195. That is about 5.1% growth in ATP. For the half year, it has improved from Rs.190 to Rs.197, which is a 3.9% growth in ATP. For comparable properties, the average ticket price has gone up from Rs.186 to Rs.193, that is a growth of 3.8% for the quarter and from Rs.189 to Rs.195, which is a growth of 3.1%.

The second component of our revenues is food and beverage. There we have seen the spend per head going up by 13.5% from Rs.65 to Rs.73 for the quarter. For the half year, it went up by 15.4% from Rs.65 to Rs.75. The net contribution has fallen marginally from 75% to 73.3% in the quarter and from 76% to 74.5% for the half year. However, in absolute terms, the contribution from food and beverage, which is the spend per head minus the cost of goods, increased from Rs. 48.75 to Rs.53.50 that is a growth of 10% and for the half year from Rs.49.40 to Rs.55.88 that is a growth of 13%.

We continue to maintain the momentum of growth on advertising income that increased in the quarter from Rs.32.1 Crores to Rs.37.8 Crores that is a growth of about 17.8% and in fact even on a per-screen basis it improved from Rs.6.85 lakhs to Rs.7.42 lakhs, which is a growth of 8% on a same screen basis. For half year, advertising income improved by 18.9% from Rs.65.5 Crores to Rs.77.9 Crores that is a growth as I mentioned of 19% and even on a per screen basis, the growth was from Rs.14.11 lakhs to Rs.15.63 lakhs that is a growth of 11%. Other operating income was flat Rs.26.4 Crores for the quarter last year went down to Rs.26.2 Crores for the quarter this year and for the half year the fall was Rs.53.1 Crores to Rs.47.9 Crores.

Those are our key revenue components. On the cost side, tax cost, which is essentially GST, went up from 26.6% to 27.6% on NBOC basis for the quarter. For the half year, it went up from 26.6% to 27.4% again on NBOC basis. Film distributor share went down from 46.5% to 44.7% again on NBOC basis for the quarter and for the half year 44.9% went down to 44.4%. As far as other overheads per operating screen are concerned, these went up from Rs.36.8 lakhs per quarter per screen to about Rs.41.7 lakhs per quarter per screen that is an increase of about 13% for the quarter. For the half year Rs.79.5 lakhs went up to Rs.84.10 lakhs that is an increase of about 6%. Those are the key highlights of our financial numbers.

In terms of the new properties opened, we are extremely delighted to inform you that we have been able to not just maintain, perhaps outgrow our initial projections. We opened during the quarter 6 properties, 28 screens and about 5365 seats. These include properties in Kakinada, which we opened on the 09<sup>th</sup> of July, 2018, 5 screens and 915 seats, Gurgaon Sapphire Mall, which we opened on July 24, 2018, 3 screens, 567 seats, Pune Heritage Mall (Existing property), which we opened on August 1, 2018, 2 screens, 428 seats, Coimbatore Prozone, which we opened on August 20, 2018, 9 screens, 2057 seats, Surat Reliance Mall opened on September 22, 2018, 3 screens, 539 seats, Gorakhpur City Mall we opened on September 24, 2018 that has 3 screens and 742 seats, Delhi Epicuria we opened on September 29, 2018, 3 screens, 117 seats and after the end of that quarter in the month of October we already opened in the last 20 days Mumbai Metro (Existing property) 2 screens, 94 seats on October 6, 2018 and Bangalore RMZ October 12, 2018, 5 screens, 1317 seats. As a result of this, we are now operational in 19 states,

present in 66 cities with 132 properties, 536 screens and 129544 seats operational. We have grown on an average by adding about eight screens every quarter since we started operations.

What we expect to end the year by beyond what we have already opened, we expect another 6 properties and 33 screens with 5309 seats to be opened in the second half of the year, as a result of which by the end of the year FY2019 our total properties operational are expected to be about 138 properties, 569 screens, and 134853 seats. In other words, we will be opening about 77 screens in this financial year against the initial guidance of about 60 screens that we had provided at the beginning of the financial year.

Beyond this, we have a very strong visibility of pipeline beyond FY2019 based on agreements already signed. We have properties tied up to the extent of about 815 screens, 125 properties, and 146931 seats and once this pipeline is fully implemented, we will be about 263 properties, 1384 screens and about 281784 seats strong, so that is as far as the properties pipeline is concerned.

As far as content is concerned, we expect some pretty good releases to happen over the next few months. In November for example we expect on November 8, 2018 Thugs of Hindustan to be released. As you might know, this is Amitabh Bachchan, Aamir Khan, Katrina Kaif starrer from the banner of Yash Raj Films and then there is 2.0 being released again on November 29, 2018. This as you know is a Rajinikanth, Akshay Kumar starrer. In December some of the major releases expected are Zero a Shah Rukh Khan starrer, Red Chillies Entertainment banner, Simmba, a Ranveer Singh, Rohit Shetty movie that is expected to be released on December 20, 2018. In January, we expect the Queen of Jhansi, Manikarnika, a Kangana Ranaut starrer expected to be released on January 25, 2019. Again on January 25, 2019, there is a Hrithik Roshan starrer called Super 30 being released, so pretty strong content pipeline as far as we can see over the next few months.

In terms of the shareholding structure, there has been a little bit of a churn. HDFC Mutual Fund now owns about 5.2% of the company, started buying in the last quarter. Reliance Mutual Fund has increased its stake from 4.1% to 4.9%. As a result of this, FIIs now own about 15% of the company and DIIs own about 20% as compared to 17% last quarter. We have treasury shares of 4.51%, the public owns 11.71% and the promoters continue to own as they always have 48.7% of the company. The share price currently is about Rs.231, which gives the company a market cap of roughly about Rs.2,232 Crores.

We continue to have an extremely strong balance sheet. With a very, very low leverage, our net debt to equity is 0.38, and this does not include the value of the treasury shares. If you would like to exclude this as well the net debt to equity would be less than 0.2. We, as I mentioned, have treasury stock, which is at current prices valued at about ~Rs.90 Crores. There is real estate on the balance sheet, which is worth about Rs.350 Crores at market value and as I mentioned the promoter's stake is about 49%. When all of these factors put together to give us the potential to be able to grow and fund our expansion plans as maybe required. So that ladies and gentlemen is a brief snapshot of our financial and operating performance. I would now like to open this up for

any questions that you might have. I have with me my colleagues Alok and Kailash also on the call, so I might even ask them to chip in with any responses. Thank you.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

**Yogesh Kirve:** Thanks for the opportunity. Sir if you look at the growth in the admits and also the occupancies is weaker compared to what the overall box office performance has been during the content flow has been during the quarter, so is there something you would like to call out, I understand there would have been some impacts because of BookMyShow's issue?

**Deepak Asher:** First of all, I do not know what the impact because of BookMyShow would have been. Yes we were not linked to that platform for about three weeks during the quarter, but it is always difficult to measure this impact because of the fact that content flow keeps on changing and therefore there is no standard benchmark or uniform basis of comparison. We believe that the content flow has been weak. We also believe that normally typically Q2 is always weaker than Q1 and therefore we were not completely surprised by this. We think it is largely content flow driven rather than anything else.

**Yogesh Kirve:** Ok. So from what the box office or the content flow, which has been there in the Q2, we understand there would have been about 10% to 15% growth based on the data, which is sort of available on various film magazines, so in light of this, the growth did appear a bit subdued, so I understand and appreciate you cannot quantify the BookMyShow impact per se, but any qualitative colours that if you could tell us about?

**Deepak Asher:** No, not really. As I said frankly it is difficult to quantify the impact if any of BookMyShow, but as I said I think it is largely because (a) Q2 normally is weaker than Q1 and we do believe that if some of the content has performed better than what it did, the footfall numbers would have been better.

**Yogesh Kirve:** Sir secondly in terms of the food and beverage spend per head, it was about 13.5% and it has been growing in sort of the mid teens over the last couple of quarters, so is this sort of a rate is sustainable, the growth rate is sustainable in the quarters ahead or the years ahead and what has been the driver with this kind of growth over the last couple of quarters?

**Deepak Asher:** Well, I think it is largely sustainable. I think we should be able to maintain the momentum of growth that we are demonstrating on our F&B revenues. I think it is a mix of two things: One is a higher conversion ratio. We have been able to improve our conversion ratio, which is measured as a number of transactions on the food and beverage counter versus the total number of tickets sold. We have been able to improve that consistently. In fact, the improvement in this quarter itself has been to the tune of about 8% and we have also been able to improve the average price of a particular ticket on the food and beverage counter by about 4% to 5%, so I think it is a mix

of both, at some places we have also tried to rationalize food and beverage prices in response to popular demand, but we have also seen that in places we have done that, we have not suffered a significant negative because of the fact that the hit rate or the conversion rate improved because of the rationalization of prices so having regards to both of that, improvement in the average price as well as the hit rate, we believe that this kind of growth rate in the spend per head is sustainable over the long term.

- Yogesh Kirve:** Sure. Thanks a lot. That is all for me.
- Moderator:** Thank you. The next question is from the line of Darpan Thakkar from HSBC. Please go ahead.
- Darpan Thakkar:** Hi, thanks for the opportunity. I have two questions. One, if you can throw some light on what happened with BookMyShow and how that issue was resolved, secondly is any particular reason behind sudden increase in other costs, which is like 31% cost increases? Thanks.
- Deepak Asher:** I can only shed that much light on what happened with BookMyShow. I believe we have stated earlier that, they were in our view, in violation of the terms of the contract. We, therefore, pointed this out to them. There was some time before they accepted that there was a violation and therefore, up to that time we had to take INOX off their platform because we did not want to accept a continued violation of their rights. Eventually, both parties sat together and worked out a solution that was amicable and acceptable to both sides and as a result of that we have recommenced operations with them, so that is, unfortunately, as far as I can go in terms of shedding light.
- Darpan Thakkar:** And any light on when that agreement with BookMyShow is coming up for renewal or something?
- Deepak Asher:** No, I think the new agreement is already in place, the paperwork is yet to be done, but everything has been agreed upon and based on that we have already commenced operations on their platform. The documentation, of course, will be done over the next 1 or 2 weeks, but that should not be a problem.
- Darpan Thakkar:** On cost side?
- Deepak Asher:** See, on the cost side, I think, broadly speaking, you could break up the reasons for the increase in cost into 3 or 4 parameters: One is, as you know, there has been increase in the number of screens that we opened. We have number of screens, the average screens last year was about 439 in Q2, this year is about 480 in Q2 and therefore about 10% number of screens going up, obviously, would, even if you assume that the cost would remain the same on a per screen basis, lead to a 10% increase in overheads.
- Darpan Thakkar:** I am talking about per screen other overheads only that you show in the presentation that is 30.9% increase.



**Deepak Asher:** Sure, fair enough. Okay, fine. So had you mentioned that, then I probably would have answered that directly, so on a per screen basis, if you look at it, the costs have gone up primarily because of two reasons, one is of course inflation, there is about a 4% to 5% inflationary impact on other cost. Secondly, there is a one-off impact. You see, the food and beverages, which was earlier subject to an 18% GST and input credit was allowed, is now has 5% GST impact and input tax credit is disallowed. The impact of that input credit being disallowed in this other expenses is about I would say, if the total expenses have gone up by 13% from Rs. 36.8 lacs per screen to Rs.41.7 lacs per screen , around 4.5% is because of the input tax that is not being allowed and hence the net of that impact is about 8.5%. Of this, I would say, around 4% to 5% would be inflationary, and the rest would be some one-off costs, for example, we had to incur legal costs on defending the food and beverage matter, which was here in the Bombay High Court and eventually, we had to take it to the Supreme Court. There was some other one-off expenses on advertising because of having opened new properties, which would have explained that increase in cost. So largely the input tax credit not being available because of the GST on food going down from 18% to 5%, some one-off expenses and inflation.

**Darpan Thakkar:** Okay. Thanks.

**Moderator:** Thank you. The next question is from the line of Tejas Lakhani from Edelweiss. Please go ahead.

**Tejas Lakhani:** Sir Congratulations on the set of numbers, thanks for the chance to ask you the query, so my query is more with regards to the advertising revenue. Could you tell me how does this piece work for you and also given the fact that the charges that you command on your screens, how does the advertiser validate the measurement or how does he know the effectiveness of these ads?

**Deepak Asher:** I am sorry, I do not understand your question completely and how do we measure the advertising revenue, you know, for example, we charge on a per-minute basis, based on, say 4 shows a day and 7 days a week, so we measure the total number of minutes that we show the advertisement on and the rate, and the advertising revenues are a function of both those things put together.

**Tejas Lakhani:** Sir, actually my query was that when the advertiser chooses to advertise on your platform, what is the measurement the advertiser gets like, how many people saw the ad or what was the actual benefit of spending that money on the ads, so like some sort of an eyeball metrics where he says that, okay, this was the cost and these were the number of people who have seen the ads so is there any measurement technique like this?

**Alok Tandon:** Well, we tell the advertiser the number of people who are there in the hall and he knows the amount of money he spent for that particular advertisement and hence he can come to know the effective reach and having said that advertising in cinemas is better for him because he has got captive audience so anybody who comes and sits in the hall has to see that particular advertisement.

- Tejas Lakhani:** That is a fair point, but Mr. Alok, one further followup is that your ability to tell him that, okay, how many people are sitting in that hall would be a function of how many people have booked the tickets online and you have that data beforehand, but I am presuming some certain percentage also just comes across the counter and purchases the ticket, so how does it work?
- Deepak Asher:** He does not need to know beforehand. We give him the attendance details after the show or the week is over and he can always measure the efficacy of that advertisement based on how many people attended the show versus what he spent for that ad.
- Tejas Lakhani:** Ok. Are we in touch with more national advertisers or local advertisers and how is the mix?
- Deepak Asher:** Yes, it is a mix of both. We have marketing out reach both at the national level as well as at the regional and the local levels, and the advertiser is a mix of all these three segments.
- Tejas Lakhani:** Sir, just to get a sense, do you have like for the national ones, do you have like they give you a budget and then it is like a 3-month, 6-month campaign or is it like more spot kind of deals?
- Deepak Asher:** Again, it is a mix. Some are short-term deals and some are relatively medium-term to long-term deals. Obviously, the rates will vary depending on what kind of campaign is running, but it is a mix. I do not think you can generalize into saying it is just one category and not the other.
- Tejas Lakhani:** Ok. Thanks for that.
- Moderator:** Thank you. The next question is from the line of Urmil Shah from IDBI Capital. Please go ahead.
- Urmil Shah:** Sir just, a follow-up, last year it was very strong as a result of that has been closed. First half, while the growth is decent, it is significantly lower than the previous year, content would be one of the reasons, how should we look at the second half given that content appears to be good?
- Deepak Asher:** Well, we do expect that if the content actually is going to be as good as we think it is then the growth rate should be better, but also remember, last year's growth rate was a function of a relatively lower base and as the base keeps on expanding the growth rate in percentage terms is difficult to maintain, that momentum in percentage terms, but even on that higher base we have demonstrated an 18% growth, which I think is fairly decent. We could possibly have, our target was to do about 20% to 22% so to that extent it is slightly lower than what we were expecting, but that is also because we have signed some long-term deals during this quarter, which had an average rate lower than our other blended average, but we expect that to correct going forward. Since now we have a base load of those long-term ads, we will have some shorter campaigns at higher rates.
- Urmil Shah:** Sure. Sir my second question was you mentioned rationalization of pricing selectively in the F&B part and that is visible partly on the gross margin for the segment. Should we expect the gross margin to improve from here on?

- Deepak Asher:** No frankly, I think you would expect the gross margins to remain where they are today because whatever needed to happen in terms of rationalization of prices as well as the impact of the change in the GST has already happened and therefore I think going forward we should be able to maintain this momentum of growth as well as the margin profile on the food segment.
- Urmil Shah:** So we can take that Q2 number as the base for the gross margin?
- Deepak Asher:** I guess so, yes.
- Urmil Shah:** Sure. Then lastly, a followup on the BookMyShow issue, even Q3 should have a partial impact, I mean, for the first two weeks?
- Deepak Asher:** Sorry?
- Urmil Shah:** Even Q3 should have a partial impact for the first two weeks?
- Deepak Asher:** Possibly, yes. I mean, there was a period, I think about 10 days for which BookMyShow was not operational during October so whatever impact that would have, that would be there, but as I said it is difficult to quantify what that would be.
- Urmil Shah:** Right Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.
- Riken Gopani:** Hi Sir. Just wanted to understand the F&B cost as a percentage of F&B revenues, that seems to have increased compared to the last year's, could you highlight what are the reasons for this?
- Deepak Asher:** Well, I thought I already mentioned that. What was happening was till last year the GST rate on food and beverage was 18% and even allowed input tax credits on the food and beverage. Now that rate has gone down from 18% to 5%, but you are not allowed input tax credits and therefore while the SPH is on a gross basis and therefore for Rs.100 food item my cost would have gone up because input tax credits are no longer allowed.
- Riken Gopani:** Ok. I thought you explained that with reference to the increase in other expenditure and not in the F&B cost. Maybe I missed that part.
- Deepak Asher:** Just to clarify, maybe you did not miss understand, but the impacts are twofold. First of all, the direct inputs going to food and beverage are disallowed credits, so that is what goes in the COGS, or the cost of goods sold of food, which has led to the margins going down from 75% to 73%. In addition, what happens is you are also disallowed a proportionate GST on the other inputs, and that proportionate GST on other inputs, which are disallowed, these are not necessarily food and beverage inputs, but to the extent that it is pro rata disallowed based on the proportion that food income has on your total income, that is reflected in other expenses.

**Riken Gopani:** Understood, understood. That is clear now. The other question was with regards to the exhibition cost, that cost as a percentage to the box office collections has come down compared to the last year. Is that driven by the longer duration of some of the movies or is there something else to it as well?

**Deepak Asher:** Well, I think, it is two components. One is slightly longer duration of the movies, but secondly also we were able to get a rebate in terms of the service charges, which are allowed to be deducted in both Maharashtra as well as Gujarat. As you know under the earlier entertainment tax regime, there was a service charge built into the legislation itself. Once GST happened, we had to work to get this promulgated, and this obviously takes time. We have now got this in about 5 or 6 states, but it is largely last year there was no service charge allowed in Q2, but now we have been able to do that, so that has led to this reduction in the distributor payouts as well.

**Riken Gopani:** So what would be a more reflective number once you achieve resolution across the majority states according to you?

**Deepak Asher:** Well, I think it would be around this number, between 44% and 45% of NBOC.

**Riken Gopani:** Understood and Sir just one last question on the occupancies itself. So basically, when I look at the top five movies occupancy, that have grown quite strongly, and it is the others, which has basically declined significantly, any specific trends that you would like to call out or it is just content because almost 20% would be the decline in the other movies if I were to take out the top five, any specific trends, if at all, that you would like to call out here?

**Deepak Asher:** No, not really. As I said, this is purely content driven and ideally we should have the other movies also perform better. In fact, I remember in more developed markets the top five movies account for 15% to 20% of box office because it is not dependent. The year or the quarter is not dependent on just three or four movies, but it is more widespread. Unfortunately, in India, the trend is the other way. As I said, we have no control over the content. We have to depend on what kind of content flows we get.

**Riken Gopani:** Ok, alright. Thank you. That is it from my side.

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

**Ankur Periwal:** Hi Mr. Asher. Just one small bit, slightly more strategic. Now if I look at our last probably whatever three to four years, the screen addition has been pretty healthy. So if I look at percentage numbers, it is probably more like 8% to 10% on average has been the screen addition over the quarters. The footfall growth is not in tandem, so it has been patchy, probably varying from a minus to a double-digit positive number, but net-net the footfall growth has been slower than the screen addition. Just wanted to have your thoughts whether it is a structural thing, which

will probably continue to happen going ahead as well or probably these are more impacted by content and probably all things will stabilize going ahead.

**Deepak Asher:** Well, I think it is more and I hope it is more impacted by content and I hope the quality of content will improve going forward to ensure that we are able to maintain upwards of 28%, 29%, possibly 30% occupancy levels. It could partly be because of the fact that the number of screens that are getting opened not just by us, but by everybody else. We will see some amount of cannibalization of audiences and as a result of which the people who watch movies get spread over more screens than less, but one hopes that the quality of content will keep on improving. Again, since the question is more high level and macro strategic, I would like to say that in terms of number of screens per million population, India is amongst the lowest. We have less than eight screens per million population, less than three multiplex screens per million population whereas, as you know internationally, many countries operate at about 10 times at level, so we do believe that there is ample scope for growth if the content keeps improving.

**Ankur Periwal:** Sure Sir. Thank you and that is it from my side.

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

**Urmil Shah:** Just one more question on the screen addition. So this year appears to be really strong, but if we look at the last four or five years, it has been uneven, so if I had to look at the next three years FY2019 to 2021 while the lineup is good, what is the kind of run rate you think should be bare minimum and we should not have a repeat of FY2018?

**Deepak Asher:** As you know, normally, we do not give screen addition guidelines on a year-to-year basis before the beginning of the year. Because by that time, we have a little bit more visibility on what kind of property developments are happening, what stage they are in and how soon we would expect them to be, the property to be handed over to us for it to be fit out and for us to get the permissions, so it is difficult to say at this stage as to what kind of guidance we can give you for, say, FY2020 or 2021 except that I think it will be reasonable to assume that we would be able to add about 60 to 80 screens on an annual basis going forward. As you know we will do about 80 this year. We have done 60 in earlier years. So between 60 to 80 should be a reasonable number to go by.

**Urmil Shah:** Sure. Then if I can get the mix of premium screens as of date?

**Deepak Asher:** As of date?

**Urmil Shah:** Yes.

**Deepak Asher:** We have got about 32 - 33 premium screens and about 5 IMAX screens.

**Urmil Shah:** So in total about 37/38?

- Deepak Asher:** That is correct, yes.
- Urmil Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Good evening. Thank you for the opportunity. Just three questions from my side. One is can you update us on what is as of now the status on the legal matter on the F&B?
- Deepak Asher:** So I do not know whether you are familiar with what was actually happening, but following the writ petition that was filed here in Mumbai, a lot of writ petitions were filed in other states as well, which included Jammu and Kashmir, which included MP in Indore, which included MP in Jabalpur, which included Hyderabad, which included Delhi, which included Patna, so we had about seven or eight cases being filed in different High Courts across the country. One High Court had given a decision that in a sense went against us and therefore allowed patrons to bring food and beverage inside and this was curiously the Jammu and Kashmir High Court where I thought security would be more of an issue, but nonetheless, perhaps because the cinema side was not represented in that proceeding at all. That order went against us. We filed an appeal before the Supreme Court and the Supreme Court was pleased to grant a stay and has effectively stayed the order of Jammu and Kashmir High Court. Subsequently, we have filed a petition to transfer the Mumbai matter to the Supreme Court as well because there is no point in fighting this in different High Courts. So we thought we will consolidate everything in the Supreme Court itself. So now the J&K appeal and the Mumbai matter are both at the Supreme Court. In the meantime, the other High Courts are held in our favour, in the sense that the petition filed by the consumers to allow food and beverage to be brought inside cinemas has been rejected and this includes the MP High Court at Indore, the MP High Court at Jabalpur as well as the Hyderabad High Court. So all these have decided that it is not open for patrons to allow food and beverage items inside cinemas and therefore these matters were not necessary to be clubbed before the Supreme Court because the orders were already passed in our favour. Currently, the Supreme Court next date of hearing, I believe, is on October 29, 2018 where the matters will be further argued and heard.
- Rohit Dokania:** Great Sir. This is very helpful. Thanks for the detailed response. Just two more things from my side, one you were explaining to some other participant earlier in terms of the increase in overall other expenses, not on a per screen basis you spoke about inflation, I think you also spoke about the GST impact of ITC, you said there were three, four reasons, could you please elaborate on the other two?
- Deepak Asher:** So one of them was the increase in the number of screens, number of screens have gone up by about 9% to 10%, so obviously, in absolute terms the expenses of the overheads on a total basis into my P&L would go up by 9% to 10% because of that. The second reason for impact is the proportionate disallowance of input credit in my other cost. For example, we have manpower

contracts, we have service contracts on which we pay GST and to the extent that food and beverage constitute, say, 30% of our total revenues, 30% of the input tax credits on those items needs to be disallowed.

**Rohit Dokania:** Including rental as well, I would assume?

**Deepak Asher:** That is correct, including rental as well. So this proportionate disallowance led to some cost increase, which is reflected in the other expenses and then there were some kind of one-off expenses, for example I believe we spent about Rs.3 Crores to Rs.4 Crores on legal expenses on the food and beverage matter because we had to retain the best counsel both in the Mumbai High Court as well as the Supreme Court and that led to some costs. There were some one-off costs as well and then of course there was inflation. So those are the four growth categories. As a result of which the other expenses went up.

**Rohit Dokania:** Sure, fair enough. So just last question from my side. Could you please help us with the share of online booking both in Q1 and Q2, Q1 FY2019 and Q2 FY2019 as a percent of total footfalls?

**Deepak Asher:** Overall online booking was about 44% to 45%, 44% in Q2 FY2018, 45% in Q2 FY2019.

**Rohit Dokania:** Q2 FY2019 was 45%, Sir?

**Deepak Asher:** That is correct.

**Rohit Dokania:** And how much was sequentially, Sir in Q1 FY 2019?

**Deepak Asher:** I do not have that in front of me. Just a moment, I will see if I can somebody get it. 47%.

**Rohit Dokania:** Sure Sir, this is very helpful. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Akash Shah from PMS Securities. Please go ahead.

**Akash Shah:** Yes. My question was with respect to whether INOX is planning any inorganic acquisition especially in Southern states?

**Deepak Asher:** Well, INOX has always been willing to look at any sense-making acquisition opportunities. In fact, I might say that we in a sense began the consolidation phase in the multiplex sector by acquiring 89 cinemas way back in FY2007 I believe and then we acquired Fame and then we acquired Satyam, so we have been looking at acquisition opportunities, but our strong belief is that it should be done at a value that makes sense for our investors and therefore there is a certain threshold about which we would not like to pay for acquisition opportunities, but if we find something, which makes sense, which is complementary to our existing footprint and which we can acquire at a value, which we consider to be reasonable and affording a good return on investment for our investors we would certainly look at it.

- Moderator:** Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.
- Girish Pai:** Thanks for the opportunity. I just want to ask a question on the other operating revenue and how much of that is coming from convenience income or rather from the ticket aggregators, for instance, Q2 of FY2019 you had Rs.26.2 Crores, how much of that would be income from ticket aggregators and what would the other part form, what would the other income be, non-ticket aggregator-related other income?
- Deepak Asher:** So, again, one is, of course, the ticket aggregators, what we call convenience fees, then there is a virtual print fee or VPF. It is a fee that we charge our distributors for to compensate for the cost of the digital projection equipment that we have invested in. For some properties that we own ourselves there is a conducting fee or a rental income and then there is an entertainment tax subsidy, which is a handover of the earlier entertainment tax regime that is credited to the head and then there are some other sundry, parking fees and other revenues, so it is mix of 5 or 6 different components.
- Girish Pai:** So of this Rs.26.2 Crores, how much of it is ticket aggregator-related convenience income?
- Deepak Asher:** Well, I would not like to share the exact numbers with you, but that, I think, would be the largest portion. It accounts for less than half of it, but certainly the larger portion there.
- Girish Pai:** Now the new deal that you may have probably signed with BMS and maybe even Paytm versus what you were getting previously, what would be the multiple be like because your competitor has come out with a certain deal, which is at a significant premium to the previous deal that it signed, would it be along those lines or would it be different from that?
- Deepak Asher:** Well, first of all, I do not think it is directly comparable because what we have negotiated and the kind of deal that we intend to sign with the aggregator now is completely different from what our competitor has done. In that sense, the way the rights between the two sides have been called out for each other are completely different and in that sense it is not a comparable number. All I can say is it is significantly better than the deal that we had hitherto, which is before October 1, 2018.
- Girish Pai:** **And** of this 45% online booking how much would be coming from ticket aggregators?
- Deepak Asher:** About 40% of it.
- Girish Pai:** Thank you.
- Moderator:** The next question is from the line of Vahishta Unwalla from Care Rating. Please go ahead.
- Vahishta Unwalla:** Good evening. Congratulations on your quarterly performance. My question is with the fast penetration of OTT players like Netflix, Amazon, etc., which is supported by the low subscription rates and low data rates, do you see any impact in the near term on your occupancy rates, footfall in the near term, maybe in the next 3 to 5 years?



- Deepak Asher:** We do not believe so. First of all, we believe socially going out for a movie experience is always a very enriching social as well as family experience, and people will continue to do that regardless of availability of other options within their roof itself. Secondly, commercially also, there is a restriction on playing of content on other platforms other than theatrical exhibition. One, the distributor cannot release that content on other platforms for at least 6 to 8 weeks after the commercial release of a movie in a cinema theater, and that will ensure that there is no direct competition between these other platforms and cinema exhibitions because content will be shown. It was mainstream Hindi or English or regional content will be shown in cinema theaters exclusively for a period of 6 to 8 weeks before they are available on other platforms.
- Vahishta Unwalla:** Alright. Thank you Sir.
- Moderator:** The next question is from the line of Rishab Bothra from Sharekhan. Please go ahead.
- Rishab Bothra:** I just wanted to understand, in case our content pipeline is strong, can we have a better ad revenue or the increase in the number of minutes?
- Deepak Asher:** Yes, I think so. Yes, except that the impact is not as direct as, for example, in ticket prices. So if we have great content, I can increase my ticket prices tomorrow itself. For advertising income, there is a little bit of lag between flow of content and the improved revenues, but yes, one would expect that in the long term, advertising revenues would improve as content quality improves.
- Rishab Bothra:** So you mean to say that better footfalls due to better content will help in negotiating with the advertisers for the coming quarters or so?
- Deepak Asher:** Yes, that is correct, except that, as I said, the impact is not immediate, it is more on a sustained and lagged basis, but yes, it would happen, for sure.
- Rishab Bothra:** And till how long does the advertiser contract remain enforced, is it for a quarter or movie by movie?
- Deepak Asher:** As I said, there are different deals. There are long-term deals where there are 6 to 12-month contracts. There are short-term deals that could be a month to three-month kind of contracts, so it is a mix of different types of transactions.
- Rishab Bothra:** Ok. Lastly on the other operating expenses, I guess, the GST input credit and inflation part will remain so, only the legal expenses part will go off, so this could be a new norm in case of increased other operating expenses?
- Deepak Asher:** Yes, that is correct. The one-off expenses will not be repeated, but the GST input credit now being disallowed and the inflationary impact, and of course, if a new property impact because if you open screens at a rate of 9% to 10% then that impact will remain.
- Rishab Bothra:** But any cost improvement areas where we can see margin expansion or how is it?

- Deepak Asher:** One thing I must also mention, and I think, that has got missed out by you, analysts, that you have not observed, is the fact that the spend per head on F&B went up by 13.5%, right, from Rs.65 to Rs.73.
- Rishab Bothra:** True.
- Deepak Asher:** The occupancies went up by around 7% from 127.5 lakhs to 136 lakhs, so you have 7% more footfalls spending 13% more on F&B, which would logically add up to about 20%, but if you look at my F&B revenue that has actually gone up by 41% and that is because my F&B revenues have demonstrated here on a net of tax basis and the impact of the lower GST is reflected in the higher net revenues.
- Rishab Bothra:** Fine. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Raghav A, an Individual Investor. Please go ahead.
- Raghav A:** Thank you for the opportunity. My first question is, are we looking towards foreign expansion?
- Deepak Asher:** Sorry, can you repeat that question?
- Raghav A:** Is INOX looking towards foreign expansion as other companies have already logged in for that?
- Deepak Asher:** No. Well, at this point of time, no, we do not have any such plans.
- Raghav A:** And other than that, what is your strategy towards the South, are we looking for inorganic expansion or only the organic one?
- Deepak Asher:** We are happy to look at organic as well as inorganic expansion. I thought I already answered that question in response to an earlier participant on this call. We have already been looking at acquisition opportunities, but we want to make acquisition opportunities, which provide adequate return on investment, so it should be at a sense making value and it should be complemented to our existing footprint. So if those two conditions are satisfied, then yes, we would be happy to look at anything that comes our way. We would not like to pay a multiple, which are so rich that the return on capital employed for us would go down significantly. So at a sense making value, yes, we are happy to look at acquisition opportunities.
- Raghav A:** Can you also give an idea about what is the pipeline for the premium properties in the coming next two, three years or like what is the approach for the premium properties?
- Deepak Asher:** No, frankly we are not sharing that information right now. We will announce that whenever we are ready for the premium properties.
- Raghav A:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

**Deepak Asher:** Just to round this up, I believe that the performance of this quarter has been slightly subdued because of the indifferent content and to that extent even though our property opening has been much stronger than what we had ourselves anticipated or given guidance on that positive has to some extent been diluted by the negative because of indifferent content. Our hopes going forward as the content flow is expected to be much better than what it was in the last quarter and our property opening rate continues to maintain the momentum it has demonstrated, our numbers going forward should hopefully look better than what they did last quarter. With these words I would like to thank all of you for your interest for participating in this call and I look forward to your continued support and interest going forward as well. Thank you.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.