

March 19, 2020

National Stock Exchange of India Limited

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Company Code: PVR / 532689

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

Dear Sir / Madam,

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 following investor con-call:

- **BofA Securities 'PVR Management Call'**, organized by BofA Securities, on March 19, 2020.

Enclosed is the transcript in this regard.

This is for your information and records.

Thanking You.

Yours faithfully,
For **PVR Limited**

Pankaj Dhawan
Company Secretary



“PVR Limited
Conference Call with BofA Securities”

March 19, 2020



ANALYST:

MR. SACHIN SALGAONKAR – BOFA SECURITIES

MS. SUKRITI BANSAL – BOFA SECURITIES

MANAGEMENT:

**MR. GAUTAM DUTTA – CHIEF EXECUTIVE OFFICER -
PVR LIMITED**

**MR. NITIN SOOD – CHIEF FINANCIAL OFFICER - PVR
LIMITED**

**MR. KAMAL GIANCHANDANI - CHIEF BUSINESS,
PLANNING & STRATEGY OFFICER & CHIEF
EXECUTIVE OFFICER - PVR PICTURES**

**MR. RAHUL GAUTAM – SVP FINANCE - PVR
LIMITED**

Analyst: Good day everyone & thank you for joining us for a call with PVR's management. We are very glad to have with us senior management of PVR. On behalf of Bank of America, we thank you for giving us your time. The statements provided by PVR management are of those & not of BofA Securities & should not contain any confidential or material non-public information & there is no investment advice. I will hand it over to Nitin and Rahul to give an overview of what is happening now in the market and would love to understand their thoughts on the impacts on theaters. Over to you guys!

Company: Thanks Sachin. As a matter of quick update things have been unfolded at a very astounding speed over the last 5 to 7 days. As you would have read from various news reports, I think starting last Thursday to now we are sitting exactly one week later, advisories for shut down of shopping malls, multiplexes have been appearing in various state governments as a precautionary measure to prevent the spread of COVID-19. As on date all our cinema circuit across the country is completely shut. It's an unfortunate situation which we never encountered in the past. But the safety and security of our own people as well as I think the patrons who come to our cinemas are extremely important. As we sit today everything across the country is shut. The current advisory talks for a shutdown till 31st march and the government is likely to review the situation on how things evolve. Given the situation the company is also proactively taking various measures to tide over this period of crisis and kind of cutting down on all of our fixed costs as we survive through this period to come back and emerge stronger during this tough period. I am happy to answer any specific questions the investors may have around the business and how we think the situation will evolve and effectively what we are doing is measures in the company to deal with it.

Analyst: Ok thank you Nitin. Let me actually ask couple of questions and then perhaps hand it over. So you mentioned on cost control initiatives and controlling on your fixed cost, can you help us run through your costs, what percentage of your total cost are fixed and variable and how you look into reduce that?

Company: Sure, starting this Thursday to effectively Monday most of our screens were shut and I think we have internally put up a crisis management team across the country handling different aspects of the business. Two of our largest costs which are variable are the distributor payouts and the COGS i.e. food cost which is directly linked to our revenue. I think the variable cost has completely come to a stop since the cinemas are completely shut, so those costs are zero. If you look at most of the other big costs and the simplest way to analyses the fixed cost structure is to just pick up the Q3 P&L and look at 5 or 6 big costs that appear there. The average monthly fixed cost is about Rs 140-145 crores a month. The Q3 financials reflect a total fixed cost about Rs 430 crores, so I am just taking a simple average. Out of this Rs 140 odd crores of fixed cost per month, the biggest fixed cost for us is really the cost of renting the properties, rent and CAM at about Rs 62-65 crores and electricity payouts is another Rs 17 crores so between these three costs itself is about Rs 80 crores; rent, common area maintenance charges of operating in malls and electricity cost, Rs 80 crores out of Rs 140-145 crores this is like approximately 55-60% of the total cost.

Now I think the first think that we have done over the weekend till now is send out letters to all our shopping mall developers and partners to say that a force majeure event has occurred. Luckily we are protected in most of our contracts, I would say 90%+ of our contracts have force majeure clauses which allow us to suspend the rent and CAM payments in the period of our closure. We look and shopping mall developer really as a partner, PVR is one of the best pay masters in the industry across any retail chain. To put a perspective to this, this event started around a week ago which is roughly about around 11th or 12th of March, by that date we had already paid the rental for the month of March to all the developers, which means we pay rent in advance, we pay on due dates, to that extent PVR has been the best pay master.

As compared to some of the other retailers PVR has been ahead of schedule even on payment of rental dues to its partners. These force majeure Clause allows us to suspend rent and CAM cost, we expect this cost to be 0 or negligible till the time we remain closed. Our electricity cost in cinemas are shut down will come down by ~80%. Minimum charges for payout for electricity meters and load etc. we still have to pay, but I guess it will be off as we reopen since the cinemas already shut. So these three big cost, that's the outlook, so again the rental cost roughly I would say 5-10% against CAM payments & similar 5-10%, if at all we have to pay anything and electricity cost down by 80%. The next biggest cost in our P&L is the people cost, there the average run rate is about Rs 35 crores a month. People cost during Q3 was roughly about Rs 104 crores.

So over the weekend PVR was one of the first companies in the country to take a proactive call and effective Monday this week we decided to rationalize our salaries across the organization during the period of this temporary shutdown, so the entire senior management of the company has decided to take a 50% salary cut effective 16th of March till the time we remain closed and rest of the organization has decided to take a 25% salary cut across the board. Due to this and other stuff like spending on staff welfare activities, stipend, incentives etc. we expect our people cost will be down by about 35% from the existing level. So our Rs 35 crore monthly cost should effective come down to roughly about Rs 22 crores starting April. In addition to that the other big expenses the repair and maintenance and other overhead which will also go down by roughly about 60-70% from the existing levels, There will still be 1/3 expenses that we name that will end up incurring in this heads due to existing AMC's, maintenance contracts etc. with interest. So all put together our fixed cost will effectively come down from about a monthly average of about Rs 143 crores to roughly between Rs 40-45 crores, down by almost 2/3 over the existing levels. That's really the outlook on how we are thinking of cost cutting during this period when we are shut down.

Analyst:

Thank You Nitin that was pretty detailed. One last question from is clearly month of March was not great for the industry but when you look at Jan and Feb month there was a bit of apprehension associated in the market regarding the virus, but how should we look at the overall industry footfalls and footfalls for you guys in the months of Jan and Feb?

Company:

So January was an excellent month probably one of the best months of the year and we had fantastic traffic at our cinema. Absolutely I think no impact at all I would say due to the virus.

February was a slightly slower month but I would say we didn't see too much impact of really what was happening globally. I think some of the films did not click at the box office so February was more impacted because of content did not end up doing as well as we had thought, big films lined up on Valentine's day did not perform to the expectation, subsequent releases were below par, So February was a slow February compared to what it was last year. I think beginning of March we started to see the impact as the noise started growing, we could see some impact on the footfall having said that people were still coming. Even on the day we decided to shut down the cinema we had I think 200,000 people across our cinemas. So you can imagine the impact was not that large but we could sense in the beginning of March that I think 15-20% potentially admissions could have been higher than what we originally thought, that's broadly what the impact is. But effective last weekend onwards, the first advisory for shutdown of one of the states started coming, I think in the next 5 days everything will shut. So March was impacted definitely. But Jan and Feb saw no impact of this.

Analyst: We understand it is an evolving situation right now but what are your thoughts on the ad outlook for the multiplex industry for this fiscal once you reopen?

Company: You mean once we reopen right?

Analyst: Yeah correct once you reopen and overall as an adjustment of this shutdown

Company: I think we will need not more than about one week to two weeks' time to garner up all our contracts back into shape. The fact is the clients largely are completely rooted in this media, there is absolutely no doubt that this media works and from that point of view nothing really changes. We will need surely about week to two week time and we hope that even within the three weeks of opening we will start getting some big films slotted and the moment that happens it's going to be business as usual. But as you can understand these cinemas as and when they open it will take us about week/10 days' time to get back to shape but absolutely no change in the relevance and the confidence of the media. In fact we are utilizing this time to see if we could work with client on more creative way to advertise. So everybody understands it's a global issue today so absolutely no question on the media itself it's just the question of the fact that we have closed down. Even on the last day of our operations we got more than about 2 lakh people coming into the cinema which clearly says that the fundamentals haven't changed a wee bit, in fact we believe that there will be a huge pent up demand and a lot of advertisers are going to use that in the first quarter itself when this ban re-opens.

Analyst: What about food and beverage revenue - do you see revenues getting impacted in the near term as people probably restrict on outside food?

Company: Not at all, in fact F&B today is a co product of cinema so technically when people today think of a movie outing, F&B and movie outing are now in synergy so now you don't serve for a movie outing without really eating out and we are actually seeing it as a great time to consolidate all our strategic thinking on all the aspects of business so we are working a lot on the F&B piece as well and it will be business as usual, absolutely no difference, in fact it could be marginally better. A

lot of trainings are happening, a lot of refurbishment of the machinery and stuff like that. So technically when the door opens I think it is going to be business as usual, we will have a lot more hunger and so would the consumer.

Analyst: A lot of the producers have moved their movie pipeline, how is the industry looking at this? How is the movie pipeline looking for the near term?

Company: We and other cinema chains have been in regular touch with the producers and the content suppliers, who have been really patient, of course everyone is worried about the timing and the fact that there is uncertainty as to how long will this situation take to unfold. But I think the producers and the content suppliers appreciate the fact that theatrical is an important part of the value chain from the revenue mix perspective theatrical remains the most dominant distribution platform and also the fact remains that the social nature of the human beings in fact something which actually makes the virus much more contagion is also something which gives us confidence that once cinemas open, because people are looking for social nature, producers are confident that people will come back to theaters in big numbers In fact now producers are competing to reschedule their dates in a manner that tactically they can take advantage of the pent up demand as soon as the cinemas open. So producers have been rock steady, every one is watching it very carefully but producers are also seeing this as a tactical opportunity and keeping that in mind they are rescheduling their films and replacing their dates.

Analyst: Can we see any change in your target screen addition for next 12 months on the back of this unexpected event?

Company: We have had this unfortunate situation where everything has got locked down, but we have been absolutely on track to open 100 screens, it's just unfortunate we have got stuck because of this situation, we have already opened 87 screens as we speak. All our balance screens which is 100 screens are all ready to open but in absence of mall openings etc. the openings will have to defer and open as soon as theaters are allowed to reopen. So we are absolutely on track to open 100 screens this year as committed. 87 screens we got licenses, we are still trying to see if licensing authorities are actually working or they suspended operations because this is not a priority right now, we may get a license over the next one week or if the country shuts down, we will reopen within one week of when cinemas are ready. However given how long this lockdown really lasts and how prolonged the situation is there is definitely going to be an impact on the construction activity across the country. Most of the developers and most of the people are currently suspending their capex plan till the time the situation resolves itself. So we will be in a better position to answer this question depending upon what happens once we reopen. As we speak we have a pipeline of more than 100 screens to open in the next year, they all seem to be on track we are already fitting on out those 100 screens. More than 50-60 screens for next year as we speak they are already under fit out and we are reasonably confident to get to a similar number next year. Having said that because it is an evolving situation I guess we will be in a better position to answer on this probably 90 days down the line but if nothing was unchanged absolutely no doubt that we would have been on track to open 100+ screens.

- Moderator:** Please signal by pressing *1 on your telephone keypad to ask a question.
- Investor:** What about liquidity at developers, that there is 1/2 month of rent free period?
- Company:** We understand & appreciate the developer's position & I think there is systemic liquidity issue. We are under legal agreements covered to not pay rentals for the time frame that the cinemas are shut down. We have the right to suspend the rental payments & will utilize for time being. PVR is the best pay master in the retail industry; we have paid in advance to developer even in the phase of a shutdown today. We treat them as partners and as we get out of this situation, we will sit & have a fair dialog with these. We have paid for March, next payment is due in April – we are hoping that if cinemas are open in early part of April beyond current advisory, we will be back to normalcy.
- Investor:** If the cinemas remain shut for a month or a quarter, is there a startup cost as well? From your liquidity perspective you have enough funding lines?
- Company:** We are all geared up. There is absolutely nothing required. We will be up & running in about 24 hours. We had done an equity raise not too long back & we got part of the cash on balance sheet & sufficient lines with banks to last comfortably through this period.
- Investor:** Could you help refresh avg. capex/screen in urban and rural areas? How is ROI different in these areas?
- Company:** Our average capex is about Rs 3 crore per screen across formats & classification of cinemas. Range could be Rs 1.75crore to Rs 4crore. In terms of return, does not matter where we are opening, we follow same threshold of 20%+ ROCE & 20% project IRR.
- Investor:** In such an environment, do you see consolidation accelerating especially as we see weaker players struggling?
- Company:** It's a function of how this situation evolves & how long the lock down really lasts. Definitely, smaller players will be under cash flow stress if the situation prolongs. There may be few consolidation opportunities opening up, but not thinking about that right now.
- Investor:** Are you going to increase presence in the premium segment?
- Company:** We are opening cinemas all over the country. There is no specific focus to do premium screens only & not regular screens. We build according to the market & depending on where we are opening & what is the audience profile, we build cinemas accordingly. There is no specific to do only premium or only regular screens. Where there is a demand & supply opportunity, we go ahead & open a multiplex best suited for the market.
- Investor:** Could you help how big is distribution business & how is it growing?

Company: In current financial year, distribution is also impacted, because all releases have come to a standstill. Within distribution, we were part of Sooryavanshi & were initially releasing in 3rd week of March which was going to be a big revenue & bottom line generator for distribution piece. That said, although Sooryavanshi has been postponed, overall distribution piece will finish quite strongly. I don't want to make any forward looking statements, but we would have grown manifolds compared to last financial year & have a fairly strong EBITDA.

Investor: One last thing from my side, as the impact of the virus grows & people start viewing more films on OTT platforms, do you see impact of those happening on the people going out to theatres, maybe a shift in their viewing patterns?

Company: Not at all, in fact, it's a unique situation, you have to appreciate that this sort of a global pandemic is happening for the first time in our life time and it is difficult to gauge how this will impact the social behavior, going out behavior of the customers. But two things that give us confidence is that while OTT has been growing rapidly in developed markets & also in India & they have been allocating disproportionate amount of investment in acquiring content, it has had absolutely negligible impact on the theatrical business. If at all there is impact, it's been on the positive side. We have seen a positive cycle emerge because producers have another ability to slice & dice their content. OTT has become a very profitable incremental distribution platform which is empowering, enabling producers to do bigger & better films, so OTT till now has in fact had positive impact on theatrical business, if at all there has been an impact. The second part which gives us confidence which also gives confidence to our content partners is the fact that the social nature of human beings is getting re-enforced by the virus. This is a slight counter – intuitive statement & I don't wish to make light of current situation, we don't wish anyone to get infected by virus & in fact the only thing we are concerned about is the health & safety of people at this point. But from business perspective, the fact remains that social nature of human beings is getting validated & re-enforced by the virility of the virus because we are also social in our behavior & we find it so difficult, even in a time when there is an epidemic & virus which is spreading so fast, it's so hard to change that social behavior. This same very thing becomes a big advantage to the movie going habit of people, going out to restaurants & indulging in retail activities – this is an important aspect of human beings. Producers are rescheduling their dates, they had delayed some releases. Exhibitors are cognizant of the fact that as soon as cinemas open, there will be lot of pent-up demand. So the point is that even if there is a temporary shift of consumption pattern, people end up spending forcefully a lot of time on OTT & other similar platforms. As soon as cinemas open, we expect people to come back. In fact, they will come back with a much higher pent-up demand. So we don't think this phase will have a long term impact.

Investor: Have you received any reply from the mall owners because it is a one-off situation at their end too? Have you taken any legal opinion from your lawyers & also the same applies for your salary cut to employees – will it be legally allowed?

Company: We have all the relevant legal opinions in place, we have looked at all our contracts & we are reasonably confident of the same. We haven't formally heard back from most of the developers, this is still work in progress & I am sure they are grappling with a similar situation with other

retailers as well. Most of our contracts have a valid force majeure clause. Some of the developers will object to it, some will agree to it, but we have been long term partners to most of our shopping mall developers – we don't see this to be a big issue. The fact that we pay ahead of time to people is a clear reflection of that. A lot of people whom we have informally spoken to agreed & they understand the situation that if we are shut, we can't pay. The situation will evolve further because there are shopping malls which are shut. So when you can't open your establishment, how can you seek rent & it's not a unique problem that we are fighting, all retailers not being able to operate – it will be unfair for a developer to ask for rent.

Investor: Once you re-open, what measures are you seeking to mitigate any risks of virus, providing negative publicity to your property?

Company: Largely a couple of things – one during the break itself, we are getting the entire cinema sanitized across the board. Also ordering for thermal thermometer gun which will be deployed across almost all cinema chain, the consignment would get in next couple of weeks and entry of each cinema that would be used to map the temperature of each of the consumer coming in. Initially how it opens up, we may look at alternate seating, leaving a 2 seat or a 1 seat gap between occupants of a certain group. So if you book 2/4 seats together as a family we may like to leave 2 seats in between before it is booked to others – that is also in conversation. Internally we are working on a IT solution for that.

Investor: Is there any screen right now which is open or have you shut down all your screens? What is the liquidity position of the content creators because not only releases are getting postponed, but some of the shootings are also getting postponed – can we be in a situation that if this issue prolongs, we might also see some of the content not coming out at all which is in the pipeline earlier?

Company: All screens are closed. That's unlikely to happen because once a movie goes into some sort of production pipeline, producers have put in place the financial requirement of the project & typically they are able to sail through. The liquidity position of content creators is slightly better than exhibitors simply because their asset is secured & there is no fixed cost incidence like on the exhibition side. There could be a temporary shutdown but we don't believe we would be in a situation where films are cancelled. If anything, we expect a lot of fight for premium release dates once the cinema opens. In fact we expect the release schedule to be a lot more choc a block because of these delays & the uncertainty that prevails. We expect a lot more releases back to back instead of films getting cancelled.

Investor: Do you expect after re-opening you might have to give discounts to encourage people to come back to theatres?

Company: At this point in time, this is fairly fluid. We are also looking at China market very closely. China is expected to open in 1st week of April or maybe 2nd week of April – a lot of learnings will also emerge from what the producers, distributors & exhibitors do in China market. That said we will form our own strategy depending on how long this shutdown period extends.

Investor: Can we know about your conversation with the bankers what help they are willing to provide in these times in terms of interest moratorium; are they willing to share the burden in some way?

Company: As of now, we have not approached any of our bankers for any kind of a relief whatsoever. We have adequate liquidity on our balance sheet in terms of cash & the credit lines that we currently avail & we have no major debt repayment in next 90 days. As the situation evolves, the country as a whole will need to start thinking, we are in a reasonably better position vs most of the other guys. Let's wait & watch how the situation evolves over the next 2 weeks.

Investor: The ad contracts that you sign up – are they on a per screening basis or is there a fixed revenue also part of that contract?

Company: There isn't anything which is fixed, they could range between long term, midterm & some contracts for the week. So technically when the cinemas are closed, we will not be able to bill because that is unfair, we have not delivered that we have promised as media company. None of the contract would go through termination, they just get extended by the time that the cinemas have been closed. We have deep relationships with clients & agencies & all are just willing to stand by & look for the time as cinemas open. We believe we will get unprecedented footfalls & occupancy percentages at that point in time.

Investor: Wanted to understand the minimum guarantee part assuming some part has the minimum guarantee – that also gets waived off?

Company: That's right

Investor: From a cash flow perspective, 2/3 months of shutdown could have an impact on cash flows?

Company: We have brought our fixed cost per month to Rs 40-45 crores vs Rs 140 crore per month. So we have cut down our fixed cost by 2/3. If you add interest payments etc. it will be Rs 50-55 crore per month. We have a decent amount of cash & credit lines which can take care of us for next 4-5 months.

Investor: Because of lack of cash flow, we will not need to increase our debt position?

Company: It will increase. Cash + credit line put together will be used to fund next 4-5 months.

Investor: When you said you have already paid rent for the month of March, does it mean that it will get adjusted against a future payment to the landlord?

Company: Yes.

Investor: Do you have some temp staff & how do handle them? When do you expect normalcy to return?

Company: Lot of people in cinema are off-roll. They are not technically temp, but we have taken a decision not to let them go because they are front line staff that deal with the customer. Instead we have

taken salary cuts across the organization from top to bottom. At a senior level, we have taken a 50% cut & at junior level; 25% cut. We have cut down our average wage bill by 30-35%. Temp staff is security & housekeeping staff, which we have let go because these are typically third party contracts and there is a minimum staffing with 1 guard for the property. It's a function of how the country deals with the situation, very hard to say if it will take 2 weeks or 2 months. Next 30 days are crucial & as we re-open, it will take 3-4 weeks for business as usual.

Investor: If business is shut for a month, we have Rs 50 crores cash burn on opex side, Rs 50 crore on interest payment & capex – how much is committed & can be pulled back?

Company: All activity on ground is fully suspended on the ground as of now – so no capex is happening during the period of closure, all construction activity is shut as well. There is no capex till the time we re-open. To clarify, we have an opex Of Rs 40-45 crore post reduction & we have included interest payments for cash flow required to be Rs 50-55 crores. Interest is Rs 8-10 crore per month.

Investor: What is the gross debt & the cash position?

Company: Gross debt at ~ Rs 1000 crore and cash in hand + undrawn lines of credit of Rs 250crore. So we have liquidity of Rs 250 crore, out of which we have drawn some of the banking lines, so our gross debt is Rs 1200 crore & Rs 200-250 crore cash in balance sheet. Debt has long term debt & working capital lines – we have Rs 200 crore of CP lines approved by the Board which we can extend if need arises, but we can also take additional lines from our banks on a long term perspective. So, all of this put together we have a liquidity position of Rs 250 Crore. We can generate more liquidity if needed, it's not a concern. Right now. We have adequate liquidity to tide over next 4-5 months.

Investor: Is the 25% reduction in employee cost only till the cinemas are closed?

Company: Yes, all the cost cuts are temporary in nature till the time cinemas are shut down & once we are back to business as usual, everything will get restored.

Investor: Can you help understand your movie exhibition cost – there is a different % in week 1, 2 & 3? There might be unusual demand patterns in week 1 & 2 because of pent-up demand. Do you see that on a blended basis historical ratios remain or may move in your favor / against?

Company: There are no such discussions for payouts to distributors once cinemas open back. Most of the content suppliers have come back & they have conformed their support to all exhibition chains. They have offered help wherever needed & have been extremely supportive. Confidence in the entire value chain is that once this uncertainty plays out & once we start moving forward, movie theatres will fill the role that they have been playing in boom times as well as in recessions. Movie theatres will remain the most popular entertainment outside the home. These are confidential discussions & we cannot lay in open forums.

Investor: When you open, you expect Week 1 to have much higher occupancy, do you expect premium product 1st week slot & that gets played with the content guys on who gets slotted first?

Company: Won't comment on the commercial discussions. Leverage, if any will accrue to content suppliers & exhibitors, but the part about release dates – this sort of situation happened in 2009 when cinemas were not shut down but for practical purposes there was no content for 45 days & thereafter the content suppliers sat down & in a very rational way figured out a release schedule, which was a win-win for all the stakeholders. Last thing you want is a lot of people coming over & releasing their films on the same date – it doesn't work for either content suppliers or exhibitors. As soon as there is more clarity on when cinemas will open, these discussions will start & we will have a seat on this table & we will play an active role to ensure there is rationalization & enough space between big films so that suppliers & exhibitors can make the most of it.

Analyst: We appreciate your time & on behalf of Bank of America & everyone who is dialed-in, thank you for your time..