Edelweiss

Ideas create, values protect

Edelweiss
Ideas create, values protect

Conference Call Transcript

INOX Leisure

Q1FY15 Results

August 8, 2014 | 02:30 p.m. IST

Corporate Participants

Mr. Deepak Asher
Director And Group Head – Corporate Finance – Inox Group of Companies

Mr. Alok Tandon
CEO - INOX Leisure

Mr. Upen Shah
CFO - Inox Leisure

Questions and Answers

Moderator: Ladies and gentlemen good afternoon and welcome to the Q1FY15 Financial Results Call with the management of INOX Leisure Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the end of presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Abneesh Roy – Associate Director, IE Research of Edelweiss Financial Services Limited. Thank you and over to you Mr. Roy.

Abneesh Roy: Good afternoon to all and thanks for joining us today. We would like to welcome Mr. Deepak Asher – Director and Group Head Corporate Finance; Mr. Alok Tandon – CEO; Mr. Upen Shah – CFO and thank them for giving us the time and opportunity to host this call. Today they will be sharing with us the company's Q1FY15 financial results and business updates post that we will have the question and answer. Over to you sir.

Deepak Asher: Thank you very much Abneesh and a very good afternoon to all of you. This is Deepak Asher here – Director and Group Head Corporate Finance of the INOX Group of companies. On behalf of the management and the Board of INOX Leisure Limited, I am pleased to extend to you a very warm welcome to this earnings call organized by Edelweiss. I am extremely grateful to all of you for your time and the interest that you have shown in tracking the performance of this company. As Abneesh mentioned, I am joined this morning by Alok Tandon, CEO of our entertainment business and Mr. Upen Shah the CFO of the company. I'd like to start by giving you snapshot of the financial performance of the company.

Now, the results were approved by the Board about a week ago and I am sure many of you would have had access to the same but if you permit me, I would like to take you through some of the highlights. Gross box office collections for Q1FY15 stood at about INR1560mn, marginally dropping from INR1620mn that they were in the Q1 of FY14, so they registered about a 3% drop. Total revenues from INR2300mn which is what it was in Q1FY14 increased marginally to about INR2330mn in Q1 of FY15. EBITDA dropped from INR390mn in Q1 FY14 to INR300mn in Q1 FY15, a drop of about 23% and PAT dropped from INR142.2mn, to be precise, from Q1 FY14 to INR45.8mn in Quarter 1 FY15.

Now we believe the performance of Q1 FY15 is an aberration. We did not see great content being released, the content that was released did not perform as well as was expected, and hence this is not symptomatic of long-term trends for this sector. In fact if we look at long-term trends, we have maintained a gross box office growth rate of around 30% over the last four years, total revenues growth rate of about 33% over the last four years, an EBITDA growth rate of roughly about 53% over the last four years and a PAT growth rate of roughly about 94% over the last four years. So we still believe that the sector has

tremendous potential for growth but this quarter as I mentioned for reasons largely driven by content and to some extent, the political events - the elections in the country - led to not significant footfalls in our multiplexes.

In terms of new properties that opened during the quarter, we opened one property which is Gurgaon Dreamz Mall on 24th June, 2014, that is a three screens, 646 seat property. We missed out opening of two more properties by a whisker, we opened Vizag on the July 4 which is three screens and 635 seats and we opened Jalgoan on the 27th July which is four screens and about 1,141 seats.

In addition, as all of you might be aware, we entered into a transaction for the acquisition of Satyam, a competing multiplex chain. Satyam has nine operational properties, 38 operational screens and this also will, once the transaction is fully completed, add to our overall screen count. So this would make us, or rather help us maintain our position of being one of the largest multiplex chains in the country today. We are present today in 15 states - 17 with Satyam, in 45 cities - 50 with Satyam, 82 properties - 91 with Satyam, 320 screens - 358 with Satyam and 86,231 seats - 95,356 seats with Satyam.

We have a significant presence across the country; we are present in nine cities in the east, 17 in the west, 10 in the south and 14 in the north with Satyam. We have, as I mentioned, 18 properties in the east, 32 properties in the west, 21 in the south and 20 in the north now with Satyam. The number of screens are 70 in the east, 130 in the west, 86 in the south and 72 in the north. We have therefore a significant breadth of presence.

In some cities we have a significant depth of presence as well, we have a market share in terms of screen count of around 20% in Mumbai, 60% in Calcutta, 30% in Bangalore, 40% in Jaipur, 25% in Pune, 80% in Vizag, 40% in Hyderabad and 40% in Indore.

In terms of the physical parameters for the quarter, as I mentioned because of the quality of content, the occupancy rates have been lower than what they were last year. Q1 FY14 was 32%, Q1 FY15 we ended about 26%. Footfalls also fell by roughly 7% from 10.7mn footfalls in Q1 of FY14 to about 9.9mn footfalls in Q1 of FY15. If we include management properties, this should be around 10.3mn footfalls which is a drop of roughly about 8%. On a per property basis, the drop was sharper, it was actually about 16% but this was to some extent compensated by the property count that increased during the quarter.

Average ticket prices on the other hand has been showing a fairly robust growth trend. Average ticket price for Q1 of FY14 was INR 153 which went up by about 4% to INR 159 in Q1 of FY15. In fact even if you look at the comparable ATP which is the ATP of properties that was operational last year as well as this year, on a comparable basis the ATP also went up from INR 153 to INR 158 which is a growth of roughly about 3.5%.

We have focused significantly during the past few months on enhancing our F&B revenues and advertising revenues, we will talk about advertising revenues in a moment but F&B revenues had gone up in terms of spend per head from INR 49 which is what it was in Q1 of FY14 to INR 56 which was what it is in Q1 of FY15,

which is a growth of about 14%. On the other hand also we have invested significant management time in reducing F&B cost, F&B cost have gone down from 27% in Q1 FY14 to 24% in Q1 FY15 and therefore because of the combined effect of increased spend per heads on F&B as well as reduced costs, our value-add in the F&B segment has improved from INR 35.7 per patron in Q1 of FY14 to INR 42.56 per patron in Q1 of FY15, which is a growth of about 19%.

The other areas as I mentioned that we are spending significant management time on is improving advertising and other operating income. This has improved on a long-term basis, it used to be about INR 1.5mn per screen per annum in FY11, it went up to INR2.5mn per screen per annum in FY12 and in FY14 it is at about INR3.8mn per screen per annum. On a comparison on quarter basis, it was INR0.86mn per quarter per screen in Q1 of FY14 which has gone up to about INR 0.98mn per screen per quarter this year, a growth of about 14%. We feel that there is still significant headroom for further improvement in this area and we are going to leverage our tie-ups with leading brands in the country in order to improve this revenue segment.

We have brand associations with most of the large advertisers in the country which include in terms of cola companies for example, Coke and Pepsi; in terms of the mobile companies, Airtel, Vodafone, Reliance, Micromax, Nokia; in terms of the technology companies, Microsoft, Samsung, Google, Sony, Panasonic, Flipkart; in the automobile sector we have tie ups with Toyota, Maruti, Mahindra and in financial services we have Standard Chartered and a couple of other investment banks as well. So we believe we are going to be able to leverage our relationships with these brand in order to improve advertising and other operating income.

On the cost side, E-tax which is one of the key cost, has been fairly stable. It was 17.9% of gross box office collection in Q1 of FY14, it marginally went up to about 18.2% in Q1 of FY15. Distributor payout again has been relatively stable, in terms of percentage of gross box office collections, it was 36.1% in Q1 of FY14, remained at about 36% in Q1 of FY15. Other over heads went up from 38% of sales in Q1 of FY14 to 44% in Q1 of FY15 but this was largely because, as I mentioned, more properties have opened but that didn't lead to an increase in topline because of lower occupancies but it did lead to an increase in cost. We do not believe this is, again, symptomatic of a long-term trend. On a long-term basis our overall overheads have been going down from 45% in FY11 to 42% in FY12 and 41% in FY14 and we believe once good quality content starts kicking in, we should be able to bring this down to around 40%.

So, overall, as I mentioned, as a summary of total financial performance for the past quarter, box office collections, from INR1620mn of Q1 FY14 went down to INR1560mn, total revenues from INR2300mn went up to INR2330mn. EBITDA, from INR392mn went down to INR301.9mn and PAT from INR142mn was INR45mn in the last quarter.

How do we see the next quarters going forward? Well we are working on a fairly strong pipeline of properties, we have in fact about 16 properties, 61 screens expected to be operationalized in this financial year over the next eight or nine

months. This very broadly would comprise of about four properties, 14 screens in this quarter itself. Five properties and 19 screens in Q3 of FY15 and seven properties, 28 screens in Q4 of FY15.Added of course would be the 41 screens that we would have acquired from Satyam. And as a result of this, we would probably expect to end this financial year with a screen count in excess of 420 screens.

Apart from the property pipeline that we see, we also have a line of sight on the content visibility for the next three or four months and we believe that there is very strong content coming up. For example, 15th August we will see Singham Returns being released, a fortnight later 29th August we see Raja Natwarlal and Ab Tak Chappan 2, 5th of September Mary Kom, 2nd of October Bang Bang, 23rd of October Happy New Year and these are just some of the kind of large films expected. There are going to be another two or three films almost every week getting released going forward. So on the back of the property pipeline that we are going to be executing and the strong content that we expect over the next six to nine months, we expect financial performance in the future to be much better than what it was in the past.

So that from my side is a broad overview of the financial performance for the last quarter and some words about how we see the future unfolding. I would like to now hand this over back to the moderator and take any questions that you might have.

Moderator: Thank you very much sir. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, our gross margins have been expanded quite handsomely this quarter and if you see this is even higher than the other listed player in terms of gross margin levels. So where do you see this settling, is there room for further increase and if you could give us more insight as to what exactly you have done on the product and the pricing side and on the innovations what is the pipeline going ahead?

Deepak Asher: See, several things. First of all I think going forward the margin levels should improve, that is the expectation as I said, driven by better quality content which will help in improving footfalls as well as ticket pricing. Secondly as I mentioned we are focusing very significant management time on improvement of F&B revenues and control of F&B costs. And thirdly as I mentioned to you, we see significant headroom for improvement in advertising and other operating income. Advertising and operating income is particularly dear to us because large part of that goes directly into the bottom line. We do not, except for the marginal service tax element, share that with any of the cost elements and therefore that should improve the bottom line significantly. So going forward certainly we would expect, because of the reasons that I mentioned, the margin levels to improve going forward.

Abneesh Roy: Sir my second question is, Kick has proved to be one of the all time hits at least based on current period, so how are you calling this off as the trend reversal because Q1 and the prior two quarters were not exactly as per

expectation. Is it the start of trend reversal or we need to first wait and then see how things pan out after Kick and maybe the next movie?

Deepak Asher: Well most certainly, I mean I didn't mention Kick because it was after the quarter but certainly we see based on the pipeline of content the forthcoming quarter would be much better. Clearly the first quarter did not see any large releases happening essentially because of the political event, the elections happening, and therefore I believe content providers held back their product. But also some of the content that got released did not perform as expected, one would sure hope that going forward this is going to be much better.

Abneesh Roy: And sir final one regarding Satyem Cineplex acquisition, there is lot of thought process that it was slightly expensive that, so if you could answer that. So did we pay a bit extra so that we could get entry into these geographies, was that the reason or is there something which we do not know as to what can be the value from a longer-term which is not getting captured currently. So if you could elaborate on how you see this adding to the numbers in terms of EPS accretion from a two three year's perspective?

Deepak Asher: Well, yes I do realize that some investors and some analysts consider this to be an expensive acquisition but frankly speaking from our perspective that is not actually so. If you look at the potential of those properties in terms of the EBITDA that they could generate, I do not think I have paid on EV-to-EBITDA basis, higher than what the market is, for an asset of that quality. Please remember that apart from the fact that we acquired 38 operational screens, there are another three or four screens that were fully funded and ready for operationalization any moment now. Secondly, there is also a very significant pipeline of properties; there are about 30 screens which are lined up for opening over the next 12 to 18 months. And thirdly, the location of the existing Satyam properties are great, the average ticket price is amongst the highest in the industry as far as we know, their EBITDA generating potential is amongst the best in the industry and therefore instead of looking at it on a EV per screen basis, if you look it on a EV-to-EBITDA basis, I think we have paid what the market is. In fact I might even mention that three out of the nine Satyam properties which are operational, are amongst the top 10 performing properties nationwide consistently for the last four or five years.

Abneesh Roy: Sir that is based on location or that is based on the brand or there is not much of competition there. So what exactly the reason for three of the top 10 being --

Deepak Asher: Well I think it is probably a mix of several things as is the location, is the geography north and the paying capacity of the market in the north is much better and that is why I mentioned the average ticket price of Satyam is amongst the highest in the industry. It is the brand and it is probably to some extent also the lack of competition in the specific catchment that these properties are located.

Moderator: Thank you. The next question is from the line of Nihar Shah from Enam Holdings. Please go ahead.

Nihar Shah: Sir, my first question was partly answered, if you can at least maybe share the historical number for the acquisition, in terms of EBITDA they might have done last year if it is possible for you. My second question would be on the footfall side, what would have been the comparable footfalls on a year-on-year basis for the same screens because the numbers that you said which includes the new screens that you would have added; there is quite a significant drop.

Deepak Asher: Okay. Two questions rolled into one. As far as Satyam financial numbers are concerned, I am afraid Satyam is not a listed entity and therefore the financial numbers are not in the public domain and therefore one must be sensitive to that. I think eventually once we complete the transaction in terms of acquisition and merger with INOX Leisure, those numbers will be available in the public domain, so that is when I can share them. But till then as I mentioned qualitiatively, that it is a great asset, Satyam as a chain has amongst the highest ticket pricing in the industry, three of its properties are amongst the best ten performing properties across the country, it's EBITDA per screen is again amongst the highest in the country and therefore we believe it is a good acquisition. And of course, it is a complimentary acquisition for us. We had a relatively low presence in the north and Satyam has large part of its properties, in fact six out of the nine operational properties in the North, and that was again something that we consider to be of value. So I am sorry, financial information we will have to wait till we can actually divulge it in compliance with regulatory requirements. But from quality of asset perspective, I think we paid what the market price for the acquisition of an asset of this quality would have been.

Nihar Shah: Sure. And the second one on the comparable footfalls?

Deepak Asher: Yes, that is right, I get your question. On a comparable same store basis, we had. 10.7mn footfalls in Q1 of FY14 which went down to 9mn in Q1 of FY15, so that is a drop of 16% and I thought I'd mentioned this in my opening remarks, but in case I didn't, on a same property basis footfalls went down by around 16% but compensated by the fact that there was some property additions as well. The overall footfalls at a company level from 10.7mn went down to 9.9mn which is a drop of 7.5%.

Nihar Shah: Okay. And the 16% you believe is just because of lack of good content in the quarter or so we can expect it to bounce back from Q2?

Deepak Asher: Surely yes, of course it is going to be driven by content but since one expects good quality content to now start coming in, one would expect that this 16% drop was a temporary aberration.

Moderator: The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Sir can you just help us understand the benefit from GST that the company would enjoy?

Deepak Asher: Yes, your question presupposes that GST has come in. However if and when it does come in, for which we are very hopeful now with the changed political environment, GST would have, in a sense, impacts at two levels for us. One is the tax on the topline. As you know we pay an entertainment tax, which

currently based on the mix of the exempt and non-exempt properties and based on different entertainment tax levels across different states, but we pay, if I remember right, a blended etax rate of about 18% on top line. One would expect as GST kicks in, the GST rate would be roughly about 16% and therefore a 2% savings because it attracts. And in the present scheme of things, it is not a pass on, you charge the full ticket price as the market can pay and therefore tax in a sense works as a cost for us and therefore a 2% saving in cost because of the tax rate on the top line. So that's one part of it.

The second part is, currently we pay taxes on inputs, we pay for example VAT on our F&B procurements and we pay service tax on our property rentals. In a GST regime, all these would be offsettable. since all this would be GST. Therefore this would be offsetable against the tax that we collect on our output and hence would cease to be a cost, which it currently is, because what we collect on our output is not offsetable against the tax that we pay on our input. Now that is a slightly difficult and a tricky calculation but one would expect that savings to be anywhere in the region of about 1% to 2% as well, of top line.

And therefore once GST kicks in, one could see margin improvements of anywhere between at least 2% and potentially going up to 4% t 4.5%.

Dheeresh Pathak: Okay. So that on our margin of 14% last year is quite a lot? Almost like a 20% 25% increase because of GST if I get that right?

Deepak Asher: Yes, I mean broadly yes, you get the picture right.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Principal Mutual Funds. Please go ahead.

Arjun Khanna: Thank you for taking my question. Given sir you stated that occupancy declined 16%, just to understand, sorry not occupancy, footfalls, did we have lesser number of shows given that the content was not as strong?

Deepak Asher: No, I mean the number of shows were the same but the number of footfalls per each show were much lower –because of the content.

Arjun Khanna: Sure, fair enough. And secondly if you could help us with some granularity in terms of advertising, for Satyam how much advertising be as a percentage of their revenue compared to us?

Deepak Asher: Okay, just one sec I'll see if I can pull that number out for you. Well, we were broadly like as I said I cannot divulge specific number of Satyam at this stage but broadly I think the mix is probably about 7% to 8% of revenues.

Arjun Khanna: Fair enough, sure. And sir just to understand, in terms of advertising which we get for our screens, would it be fair to say it is largely metro and Tier-1 city centric?

Alok Tandon: All across, whether it is Tier-1, 2 or 3, it is all across. So whether it is a metro or whether we have got advertising which is region centric or even granular for a particular city or a particular town, I would say that all contribute equally and healthily to the entire advertising income.

Arjun Khanna: Fair enough sir. Actually I was trying to understand that if we

say how local is it and how much is the networking abilities if you have a larger number of screens, you would probably get a larger number of the advertising pie, just wanted some flavor there.

Deepak Asher: No, we actually frankly advertising revenues would, there would be some national tie-ups and then there would be regional tie-ups and then again there would also be local tie-ups. So it is actually very difficult to pinpoint hardcore at numbers on what proportion of advertising revenue would come from each of this, but clearly, as far as the national and the regional tie ups are concerned, the greater your property strength and your eye balls watching the screen you would have a better chance of maximizing your advertising revenues.

Arjun Khanna: And would this be indirectly linked to the footfall sir?

Deepak Asher: Yes, I mean to some extent yes because the more the footfalls the better is your ability to drive harder bargains with your advertisers.

Arjun Khanna: Sir so is it amount derived in actual terms of footfalls and do you guarantee footfalls?

Deepak Asher: No, we do not guarantee footfalls but frankly when you negotiate with the advertisers, if you can showcase your footfall performance for the last few quarters or years, then it can help you drive a better bargain.

Arjun Khanna: We have actually seen a very good growth in advertising year-on-year, is this something that can be continued? You did mention we are upto ~0.9mn a screen.

Deepak Asher: That's why if you remember, when we started, on an annualized basis we started with INR 1.5mn of advertising and other operating income, in FY11 it went up to about INR3.8mn in FY14 and we believe that there still remains significant headroom there to further improve that. So yes, we do expect improvements in that revenue item.

Arjun Khanna: Sure. And sir just my last question, you did mention entertainment tax as a percentage of revenue, how do you see that move forward? Are more screens going of our exemption?

Deepak Asher: Well, some screens have gone off our exemption. Currently, just about 14% to 15% of our screens are in an exemption regime, but two things are happening, as screens go out of exemption the average rate of taxes also are falling across different state and therefore the incidence of tax remains at about 17% to 18% because what it has been for the last few years. We do not expect that to change materially, there could be marginal percent point changes as one or two more properties run out of exemption, but as I said, once GST kicks in which hopefully should be not too far ahead in the future, the tax cost would go down again because of the incidence of GST replacing entertainment tax.

Moderator: Thank you. The next question is from the line of Avinash Agrawal from Sundaram Mutual Fund. Please go ahead.

Avinash Agrawal: Sir, you mentioned about Satyam three of the 10 top ten properties are from Satyam, I just wanted to understand sir on what basis is this? Is this based on top line ATP kind of a thing or is it based on property…

Deepak Asher: This is based on collection of individual movies.

Avinash Agrawal: F&B margin sir, you have seen an improvement of F&B margins from 68% to now being closer 76% and you have said that going forward you expect a further improvement. So what is the kind of target we have sir in terms of margins and F&B?

Deepak Asher: Well, we are trying to improve that to the extent that we can, I do not think there is a specific target that we can discuss right now but what we are trying to do here is see if we can increase the prices of the F&B items that we sell and on the hand also try and reduce supply chain cost. So we are actually working on both sides of the value chain in order to improve the margin.

Avinash Agrawal: Sure sir. And sir one more question on Satyam, the properties that we have bought, are there screens that we have bought in the sense of real-estate or is it all the screen on lease basis?

Deepak Asher: No, all the screens are on lease basis. The entity that we acquired does not own any real estate.

Avinash Agrawal: Okay. And is there any possibility of adding screens in the existing location sir?

Deepak Asher: Not in the existing location. But as I said both Satyam and INOX have pipeline of properties in different locations which we will work on and therefore you would see increases in screen count over the next few months but not on the same location.

Avinash Agrawal: Sure, sir. And this 30 screens that are under construction or under execution in Satyam, what would be the kind of timeframe you would look at sir in executing these screens?

Deepak Asher: Next 12 to 18 months.

Avinash Agrawal: Thank you. The next question is from the line of Amit Kumar from Espirito Securities. Please go ahead.

Amit Kumar: Just a couple of points. The first one was, you sort of mentioned that in the remaining three quarters you are expecting just about and if I am counting it right just over 64 screens to become operational, did I get that right by the way, 60 odd screen to become operational?

Deepak Asher: 61 screen as far as INOX pipeline is concerned, then we have a couple of more from the Satyam pipeline and because of the Satyam acquisition, screens will also get added to what we currently have.

Amit Kumar: Yeah, so I just wanted to get a sense of that that combined INOX and Satyam for the remaining three quarters, what would be the number out there?

Deepak Asher: Well, as I mentioned we expect to end the year with about 420 screen.

Amit Kumar: All right. Sir my second question was you know with respect to the lease rental the rental conducting fees and you know common facility charges, that has gone up by almost 18% on a YoY basis while the screen count has gone

up by just about 8%. So, we are looking at 10% per screen inflation in this line item, is that the run rate or has it been something specific in this particular line item, some specific inflation in in this line item?

Deepak Asher: Okay, first of all actually that is not correct, if you look at the rental that we pay on a screen on a per quarter basis, the number was INR0.98mn in Q1 which went upto INR1mn in Q2, INR 1.04mn in Q3, INR1.05mn in Q4 and a INR1.05mn per screen per quarter in Q1 of this year. So over the last five quarters it has gone up by above 5%. The inflation rate in this cost element is roughly within 3% to 5% because different properties have different escalations, but certainly not in the tune of what you mentioned. I think some aberration might have been caused by the fact that some properties begin operations or a at least the rentals kick in in the beginning of the quarter and in some properties at the end of the quarter, so you may not get an apple-to-apple comparison.

Moderator: The next question is from the line Rohit Dokania from IDFC. Please go ahead.

Rohit Dokania: I just had one question. The other operating revenue obviously consists of advertising revenue and other operating revenue, so this INR680mn which was in FY14, where do we see this number in fiscal '15, I mean can we grow this by 5%, 10% or 15%, what could be your sense?

Deepak Asher: Well, the growth will happen because of two reasons, I would tend to think that there is, as I mentioned, headroom to improve this on a per screen basis. Again if I were to put a number I would say at least around 20% on per screen and secondly we also expect the screen count to go up by around 15% to 20%. So the absolute amount would surely go up by much larger than that 20% target.

Rohit Dokania: So you are talking of the other revenues right, not the ad revenue the other revenue?

Deepak Asher: I am talking of both, the advertising and the other revenues, other operating revenue, these are all operational revenue.

Moderator: The next question is from the line of Ankit Kediya from Centrum Broking. Please go ahead.

Ankit Kediya: Sir just wanted to know what could be synergy benefits which Satyam, be it on the content procurement or on F&B procurement or other overhead cost, when can we see those benefits kick in and if you could quantify these?

Deepak Asher: We are currently as I said focusing on the completion of the acquisition. Once this is over, we shall start focusing on the operational optimization to see how we can add value and make sure that the whole is larger than sum of the parts. We have identified several areas of duplication of administrative overheads, infrastructure cost on which there could be saving. There is also a significant potential for reducing supply chain cost because of the economies of scale that we would get. There would be sharing of best practices across both chains that will also help in improving and reducing cost levels. The

advertising campaign would get a fillip because of the larger footprint that we have across the country and the larger absolute number of footfalls and eyeballs that we will get into our property, so we would expect improving advertising and marketing revenues as well. And because of the fact that Satyam properties are in such great locations, we would also expect our average ticket price across the chain to go up. So, we haven't put a finger on the numbers but we surely would expect significant cost optimization as well as revenue enhancement opportunities once the integration is complete.

Ankit Kediya: So, any learning's from the Fame acquisition which we can replicate with the Satyam acquisition and there if you quantify anything what benefits you had in the same acquisition?

Deepak Asher: Again, the benefits of the Fame acquisition would have been kind of translated into P&L, it is difficult again for me try and quantify what exactly was the impact of that. But as I said, all these acquisitions typically do turn out to be value accretive and hence help in improvement of earnings.

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

Urmil Shah: Sir just wanted to understand your view on the market going forward basically one on the competitive scenario in next couple of years?

Deepak Asher: You mean competition with the other exhibitors?

Urmil Shah: Right sir and basically we have seen that most probably the top five players are looking at strong screen addition of between 60 to 80 screens per annum.

Deepak Asher: You know, frankly our view is that India is significantly under screened, we have less than 10 screens per million population. Countries like those in Europe and UK, you have 45 to 60 screens per million population, U.S. has a 120 screens per million population, even economies closer home like China has about 30 screens per million population. So if you go by that, there is potential for the sector to expand threefold compared to where it is today. So, yes, there would be competition for sure but I believe there is ample room in the market to accommodate the growth plans of all the multiplex chains that exist and some more that could also come in. So I do not believe we are in a situation where we will start treading on each other's toes and putting pressure on our margins.

Urmil Shah: Right, sir. Sir and also on the ATP if I look at last three years, it has remained steady between 156 to 160. If you could make us understand how does it look into screens which have reached steady state and which would have been added in the last year?

Deepak Asher: See, typically the ticket prices improve by inflationary trends which is roughly about 3% to 5% per annum on a same property basis. And as the new properties, depending on what catchment and geographies they are in, as along we have the right mix off Tier-1, Tier-2, and Tier-3 cities, you would probably see the incremental ticket pricing also to be in the same range of roughly about INR 150 to INR 160. So we see that momentum of 3% to 5% inflationary

growth trend being maintained and ATPs as well.

Urmil Shah: Sure. And last question from my side, if you could also make us understand how many of your properties would have broken even and what is the kind of utilization rate at which you break even?

Deepak Asher: Yeah again the cost structure for different properties are different and again this would also vary based on the pricing and the entertainment tax level of each property. But roughly it would be fair to say that on a 22% to 24% occupancy level, the property would breakeven.

Moderator: The next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.

Sunny Agarwal: Sir my question pertains to competition with respect to the, I mean is it possible that the going forward content owner may start releasing moving simultaneously our DTH or MSO platform giving that digitalization has completed in Phase 1 and Phase 2, so just want your view on that.

Deepak Asher: See, if you look at the slices of the pie – theatrical exhibition still accounts for anywhere between 75% to 80% of the revenues of a film. While there is a lot of talk about other alternative formats of release including DTH and DVDs and music rights and international theatrical rights, domestic theatrical rights still account for around 75% of the revenues of a film. Hence I think it would be against the interest not just for the exhibitors but also the producers and distributors to cannibalize what is clearly the largest revenue earner for them by releasing on an alternative platform such as DTH. So, also if you look at the trends in other countries, there usually are commercial arrangements between producers and distributors and exhibitors which require content not to be released in alternative format for some period typically around 6 to 10 weeks of the theatrical release.

Moderator: Thank you. The next question is from the line of Nihar Shah from Enam Holdings. Please go ahead.

Nihar Shah: Sir just a bookkeeping question, for the 61 screens that you plan to open for the next three quarters, what is the kind of CAPEX that we should build in and any sort of CAPEX that you believe on top of that for refurbishment of old properties that you believe would be incurred this year?

Deepak Asher: Well, new properties have a run rate of roughly about INR20mn per screen, so the 60 screens that we have plan to open in the next nine months will be about INR1200mn of CAPEX which will roughly be funded about INR800mn from debt and about INR400mn from internal accruals from the business.

Nihar Shah: And then no refurbishment on top of that?

Deepak Asher: We do not expect significant refurbishment, some measure of refurbishment is involved on a day-to-day basis which is true not just for properties or screens that we acquire, like in the Satyam transaction but even our own properties need to, over time, be upgraded. So there is normal CAPEX which we incur to upgrade in maybe an average of four to five properties every year.

Moderator: Thank you. Next question is from the line of Hiren Dasani from

Goldman Sachs. Please go ahead.

Hiren Dasani: Just a question of how do you intend fund the purchase of Satyam?

Deepak Asher: Well, one, the purchase of Satyam is already funded and the consideration has been paid, so it is not future tense, it is past tense. And two, we accessed debt for that transaction.

Moderator: Thank you. Next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: I will just rephrase my question, what I am trying to understand is that has the productivity of perceived blockbuster movies gone down?

Deepak Asher: And by productivity you would mean?

Riken Gopani: You have a slide where you give out a lot of movie that you expect to be blockbuster in terms of pipeline. Now as the quarter goes by, if some movie do not deliver as expected, I am just trying to understand has the absolute collection in lower than what you have expect for even a blockbuster movie?

Deepak Asher: Yes, of course yes, I mean there were some movies, you know for example the titles that were released in the first quarter, Heropanti, Ek Villian, Holiday, Main Tera Hero I mean these were expected do better than what they actually performed. So clearly they were in a sense disappointing in terms of the footfalls and the box office collections that they got in.

Riken Gopani: And what would you attribute this to, would it mean other technologies available for getting the movies by some form or the other, what would attribute because occupancy at 26% is definitely quite weak as compared to the last one or two years.

Deepak Asher: Well, as I said, yes, frankly I just attribute this to the quality of the content. There are some movies that the audience likes to watch and there are some movie that the audience does not, at the end of the day content is king. Sometimes you have two or three great movies getting released in a quarter, for example Q1 of FY14 had both Yeh Jawaani Hai Deewani and Aashiqui 2 doing exceedingly well. So I think it is something that one has to learn to live with, you will get good movies and you will get bad movies and hopefully in the long-term the good movies will perform as good as or better than expected.

Riken Gopani: Okay. So basically from the current analysis you would not want to attribute this by any means to consumers trying to reduce spend by any means?

Deepak Asher: No, certainly not. And again to some extent good quality content was held back by the content creators because of the elections and typically occupancies go down, people do not watch movies during the political -heat and dust activity which is going on.

Riken Gopani: Second thing is on the pricing side, you know YoY our pricing is even lesser than inflation in terms of increase. So what is your outlook on that and how do you actively manage this in terms of, yearly do you see any particular

number in terms of inflation in ATP?

Deepak Asher: Yeah, we would expect ATPs to keep on improving by as I said about 3% to 5% per annum, to some extent you might say it's lower than inflation rate but also the fact that there are new properties being added and the incremental properties could be in Tier-2 and Tier-3 towns as well, so that could drive down your average ticket pricing, or at least not let it grow as fast you would expect it to. But it would be reasonable to assume that a 3% to 5% growth rate in ATP would be sustainable.

Riken Gopani: One understanding that I wanted on the Satyam acquisition is, other than amount mentioned for the acquisitions, is there any debt that is coming along with this acquisition?

Deepak Asher: Yes, there is INR390mn date on the balance sheet of Satyam.

Riken Gopani: INR390mn is debt that is coming along, okay. So since we have already funded for this acquisition through debt, what would be our debt now looking like as of now? On acquisition what would be the debt sir?

Deepak Asher: On INOX Leisure balance sheet?

Riken Gopani: Yes.

Deepak Asher: It would be, well if you consider the debt of Satyam roughly about INR3800mn.

Riken Gopani: 3800mn?

Deepak Asher: Yes, but that is gross debt, as you know we own treasury stock of 20% which would at current market price be valued at about INR3000mn.

Riken Gopani: And this INR3800mn includes the amount that you have paid to the promoters (of Satyam)?

Deepak Asher: That is correct.

Riken Gopani: And do you plan to keep the brand Satyam as it is or is there a plan to revamp the entire thing to INOX?

Deepak Asher: Well, for some period we will continue with the Satyam brand, but as I said we will focus on operational integration and then eventually the long-term goal will be to merge this with INOX and operate both of the chains as one brand which would be INOX.

Riken Gopani: And sir directionally just one point on the Satyam margins, while you might not share the number right now but directionally is the Satyam margin better than the INOX margin?

Deepak Asher: I think the potential is as good as the INOX margin, in fact in some properties it is better than the INOX margins.

Riken Gopani: But overall right now would it be lower or higher?

Deepak Asher: Well obviously, the acquisition was driven by the in fact that we consider that we could run those properties better and improve the margins.

Moderator: Thank you. The next question is from the line of Niket Shah from

Motilal Oswal Securities. Please go ahead.

Niket Shah: Just had two or three questions. If I have to look at the SPH figure for you which INR 56 and 9.9mn footfalls, it comes to almost INR554mn of revenues. But the revenue that we report is around INR472mn for F&B. The balance difference is VAT or what would that difference be sir?

Deepak Asher: Yes, the balance is VAT, roughly about 12%.

Niket Shah: 12%?

Deepak Asher: Yes.

Niket Shah: And this number 56 is a gross number or the net number sir?

Deepak Asher: Yes, it is a gross number because that is what we call spend per head is what the patron pays to us.

Niket Shah: Sure. Sir as far as the difference, could you just kind of highlight what will be the difference between ATP and SPH for your screens in North India as compared to other parts of the country on a standalone INOX business?

Deepak Asher: Okay. We, as you know, do not have yet too many properties in North India, so I do not think we have a fair basis of comparison. But generally speaking, yes, pricing in the North is higher than what pricing in the rest of the country is.

Niket Shah: Normally, what percentage rough cut it should be higher?

Deepak Asher: Well, I would expect roughly, again depending on the catchment, anywhere between 10 to 20%.

Niket Shah: Sure. And within Satyam cinema sir would it possible for you to just give a brief sense between how many of them will be in malls and how much will be standalone properties?

Deepak Asher: As far as I remember, six properties are in malls and three are standalone.

Moderator: Thank you. The next question is from the line of Avinash Agrawal from Sundaram Mutual Fund. Please go ahead.

Avinash Agrawal: Sir just one question, this acquisition debt that we have taken is at what rate sir?

Deepak Asher: Well, it would be between 10% and 11%.

Avinash Agrawal: And the Satyam debt sir, the INR 380mn - INR390mn?

Deepak Asher: Satyam cost of debt is much higher but of the opportunities that we saw was to reduce the cost of that debt.

Avinash Agrawal: So on an average can we take an overall 11% kind of debt?

Deepak Asher: On Satyam debt or together?

Avinash Agrawal: Together, both put together.

Deepak Asher: Both of them together would be about 11% to 11.5%.

Moderator: Thank you. The last question is from the line of Amit Kumar from

Esposito Securities. Please go ahead.

Amit Kumar: Sir you have a very large number of properties coming in from East India specifically Bengal and FIFA World Cup had started in the prior quarter, any sort of impact of that? And in general with these kind of sports probably coming in, you will have ICC World Cup coming in fourth quarter of this year, what kind of impact should we anticipated?

Deepak Asher: Okay, maybe I will hand this over Alok to respond to.

Alok Tandon: The football if you look at the FIFA World Cup, most of the matches were played at night and we have seen even from the past the footfalls have not been effected to that extent. Where cricket is concerned, yes, off and on, if it clashes from that 7 o'clock to 10 o'clock time in the evening, there could be a slight impact and that too if it is a big match. But otherwise I do not think we see that the footfalls will come down because of any big sporting event.

Moderator: Thank you. I now hand the conference over to Mr. Abneesh Roy for his closing comments. Thank you and over to you sir.

Deepak Asher: Okay, Abneesh before you take over for closing comments there is one correction from my side and I must apologize, I double counted the Satyam properties but in terms of screen count that we expect to end FY15 with, we have 320 screens of INOX now, we have a pipeline of about 61 screens and we have 41 from Satyam. So that adds up to about 425 screens not 460 as I mentioned, I inadvertently double counted the existing Satyam properties. So please take that correction on board

Abneesh Roy : Not a problem sir. Thanks everyone for participating in this call today. Very special thanks to the management members of INOX Leisure for allowing Edelweiss this opportunity. Have a good day ahead, thank you.

Deepak Asher: On behalf of INOX Leisure I would like to thank all of you for your time and interest and to Edelweiss for organizing this.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Edelweiss Financial Services Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

DISCLAIMER

General Disclaimer:

This report has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should inform themselves about and observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their dependents from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information provided in these reports remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright Edelweiss and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Analyst holding in the stock: No.

Edelweiss shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Enclave Capital, LLC ("Enclave").

Transactions in securities discussed in this research report should be effected through Enclave Capital, LLC.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.