



“Adlabs Entertainment Limited  
Q1 FY2019 Earnings Conference Call”

August 06, 2018



**MANAGEMENT:**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Adlabs Entertainment Limited Q1 FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Dhimant Bakshi –Joint CEO of Adlabs Entertainment Limited. Thank you and over to you, Sir!

**Dhimant Bakshi:** Thank you. First of all very good afternoon everyone and I thank you for joining the Q1 FY2019 results conference call of Adlabs Entertainment Limited. At the outset, I am glad to inform you that Imagica has reported highest ever EBITDA in Q1 FY2019. It is an outcome of the strong team efforts with one eye on new initiatives and the other on continuous cost efficiencies. From the market scenario, we have witnessed a high amplification of sizing by other parks in Q1 in our region. In long run, we believe that the efforts from all players will help the category to grow and propel culture of outdoor recreation in India.

Footfalls for this quarter saw a growth of 2% Y-o-Y in parks business from 5.75 lakh in Q1 FY2018 to 5.88 lakh this quarter. With this we are pleased to share that Imagica has crossed 7.4 million visitors in just a span of over five years. Our penetration does stand at almost 17% of the primary catchment, which shows a large base yet to be penetrated and thus the immense opportunity that lay in front of us. Alongside, our repeat visitor base is increasing very steadily and currently it is at 17% to 18%. This shows the satisfaction among the guests and the repeat worthiness of our category at Imagica.

Total revenues for Q1 stands at Rs.84.73 Crores vis-à-vis Rs.86.62 Crores on a Y-o-Y basis with parks at Rs.75.63 Crores and hotel at Rs.9.09 Crores. Although there was a drop of 3% on a Y-o-Y basis, it is primarily due to the change in tax regime from service tax to GST. The EBITDA for Q1 stands at Rs.34.13 Crores versus Rs.32.23 Crores in the corresponding quarter last year, thereby registering a growth of 6%.

With margins improving to 40.3% from 37.2% on a Y-o-Y basis, this is as stated the highest ever EBITDA margin since the inception. We have also made a number of representations, as we have stated in the earlier calls, to State Governments and we are hopeful that the matter of refund of the state SGST component in lieu of previous entertainment tax exemption given to Imagica now subsumed in GST is resolved in the ensuing quarter.

The mechanics of the state refund are being finalized by the State Government and it would flow into EBITDA as a refund item. Thus we believe that the EBITDA would improve by



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approximately Rs.4.5 Crores for Q1 FY2019 considering the GST refund amount, the quarterly EBITDA margins would stand at 45.7% as the reported EBITDA margins.

Now moving onto key highlights and developments that took place in Q1 FY2019, we saw continuous footfall growth. The quarter saw a continued footfall growth of 2% with Water Park growing by 5%. In fact, Imagica being the first water park in the country to offer a unique proposition of character per head per guests and thus increasingly the entertainment value for them. On pricing and ARPU, we saw a 2% drop in ARPU this quarter versus the previous year. This is primarily due to the change in tax regime from service tax to GST.

Non-ticketing revenues continued to grow and the share of non-ticketing revenues increased to 35% of overall revenues in this quarter from 33% last year, corresponding quarter. On operational cost rationalization this quarter, we are glad to inform you that we have achieved a further 7% of cost reduction and our intent and efforts is to optimize its operating cost on a continual basis and so far we have achieved an overall reduction of almost 25% in the operating cost from the peak costs that we incurred.

From here on cost efficiencies would obviously be within the lower percentage numbers and major areas have been implemented. However, our efforts will continue to be there to drive the cost more efficiently.

Moving to Novotel Imagica, in Q1 Novotel Imagica's overall ARR stood at Rs.10,515 including F&B. The number is projected at 6,434 for the rooms and F&B stood at Rs.4,081. We saw a good demand from corporate and MICE segments as well as social segment in this quarter. We are very glad to inform you that much awaited approvals have now been obtained for all 287 rooms and benefit of the same will be available to us from September 1, 2018.

Moving on to strategy for the year, as mentioned in the last earnings call that FY2019 we would continue our efforts on adding new attractions and improve entertainment value that would help improve footfall as well as add into additional revenue streams. This will not only improve EBITDA margins but enhance possibilities of increased repeat visitations.

In line with this approach we have launched three new attractions and concepts and let me tell you that within last six months we have added very interesting premium concepts. They are Chhota Bheem, the character and as we speak in the month of July the ride has been operational. So the Q3 FY19 will logically see benefits of the same. House of Stars, India's First Official Bollywood Concept also has been operational. In fact there will be some more enhancements that would take place by end of September even that would be moving into a much higher standards of attraction. Moving onto Eyalusion, which is India's First AR Enable TrickEye Museum, on global standards has already been operational. So these are the three unique propositions that have been added to Imagica's stable.



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On future business strategy, we are glad to inform you that Imagica High Street, a unique non-ticketing initiative has been soft launched in the last week of June. Q2 FY2019 will see a major impetus –to this initiative. We believe that this concept will propel consumption and reduce the entry barrier for Indian customers. This will also allow passer buyers to take a break at Imagica and will enable us to convey theme park as a product granularly and in person

Further to this, it will help us upsell our product portfolio in a much better manner. Apart from the above, we are in talks with the few more potential partners to add interesting concepts in Imagica and make the Imagica India's most favorite and more appreciated entertainment destination. With this, I would now like to hand over to Mr. Mayuresh Kore to discuss the financials of Q1 FY2019 in details, Thank you very much.

**Mayuresh Kore:**

Thanks Dhimant and good evening everyone. Before I talk about results for Q1 FY2019, I would like to inform you that today we will restrict our discussion on the Q1 financial results and for any updates regarding asset sale and our debt management plan, we shall be updating in due course.

I can however, update you that two of the lenders including the lead banks have given their NOC for the pending hotel sale while the land NOC is still under process.

Moving on to the details of the Q1 P&L regarding footfalls and ARPU, the footfalls achieved for Q1 FY2019 are 5.88 lakhs versus 5.75 lakhs for Q1 FY2018. The breakup is as follows: the Theme Park 2.01 lakhs, Water Park 2.98 lakhs and Snow Park 0.88 lakhs. Thus the footfalls for Theme Park and Water Park combined in Q1 FY2019 grew by 2% Y-o-Y. The Theme Park and Water Park revenues combined stand at Rs.74.34 Crores, the Hotel at Rs.9.1 Crores and Snow Park at Rs.1.29 Crores and thus total revenues for Q1 stands at Rs.84.73 Crores.

Coming to the gross realizations per visitor for Q1 FY2019, the weighted average ARPU for the Theme Park and Water Park combined in Q1 FY2019 is Rs. 1,486 versus Rs.1,516 in the last year Q1FY2018, a drop of 2%. Drop in ARPU was directly due to the impact of GST, which is currently applicable at 18% while in Q1 FY2018, the service tax was 15%. The Theme Park ARPU for Q1 FY2019 is Rs.1,820 versus Rs.1,880 in the last year's Q1FY2018, which is lower by 3%. While the Water Park ARPU for Q1 FY2019 is Rs.1,261 versus Rs.1,250 in the last year Q1FY2018, in fact an increase of 1%. Thus the EBITDA for Q1 FY2019 is Rs.34.14 Crores versus Rs.32.23 Crores in the last year Q1FY2018, registering a growth of 6%. The management efforts continue to drive footfalls as well as improving our margins. And as Dhimant mentioned, this quarter we registered a highest EBITDA margin ever at 40.3% versus 37.2% in the corresponding quarter last year.

Coming to the hotel performance, I think Dhimant has already covered in detail. I would like to inform the cost related highlights, they are as follows: the overall Q1FY2019 operating cost including hotel have declined by about 7% compared to Q1 FY2018 from Rs.54.39 Crores to



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Rs.50.59 Crores despite inflationary pressures. The decrease in cost was primarily driven by lower material cost, optimized transportation cost as well as lower power and fuel cost.

The finance cost for Q1FY2019 is Rs.32.14 Crores versus Rs.31.97 Crores in previous Q1FY2018. The increase is primarily due to some borrowing increased to meet the cash flow gap presently. The loan outstanding as on June 30, 2018 is Rs.1030 Crores. We would now like to open the floor for any questions and answers.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Pankaj Jain, an individual investor. Please go ahead.

**Pankaj Jain:** I had a couple of questions on land and hotel deal, so I would like to know where is the likelihood of the transaction expected for this deal, is there any ballpark timeline?

**Mayuresh Kore:** As I mentioned, we have got couple of NOCs including the critical NOC from the lead bank, which has unfortunately been delayed because I think the PSU banks themselves are in a tumultuous time over the last few months., We do hope that both transactions considering the large number of consortium lenders gets concluded in one more quarter, so basically the practical target would be Q3 FY2019.

**Pankaj Jain:** Okay. So most probably it should close in Q3 FY2019 right?

**Mayuresh Kore:** Yes.

**Pankaj Jain:** how will be transaction impact on the financials for FY2019 in terms of interest cost savings, operational cost savings or debt outstanding? What would be the position in that angle?

**Mayuresh Kore:** On a full financial year, we were looking to save about Rs.41 Crores of interest cost. Had these deals happened at the start of the financial year, unfortunately if we take out two to three quarters, the benefit will obviously be significant in the next financial year and maybe four months of this financial year, we could get the pro-rata benefit that the interest cost and the operational cost - revenues would also go up. I would like to comment, maybe some marginal savings in say land taxes due to the additional land being sold off. So FY2020 would be the key year to look forward for the significant reduction in cost while the debt outstanding is expected to come down from 1,030 Crores to around 750 Crores.

**Pankaj Jain:** Okay. Fine Sir. Okay so may be the full year impact could be in the FY2020 and four to five months impact could be in the FY2019?

**Mayuresh Kore:** Correct.



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- Pankaj Jain:** On financial Sir, when should we expect that the company to achieve a PAT breakeven?
- Mayuresh Kore:** PAT breakeven as given in our investor presentation, we have given a guidance for FY2021-2022 and while cash breakeven will be achieved in FY2020 as per the current plan, the PAT breakeven because of the depreciation, being the high capital expenditure has been incurred on the rides and equipment. So FY2021-2022 would be the year for the PAT breakeven.
- Pankaj Jain:** Sir what are the new initiatives which we are taking to increase the footfalls as well as if you can share the number of footfalls for the month of July?
- Dhimant Bakshi:** With regards to new initiatives we have launched Imagica High Street as a new product. Now this is a completely new thought from the team. It opens up a completely new genre and reduces the entry barrier for people. One thing that we have seen is that for guests and people in India today to understand Theme Park as a concept is a slightly longer phenomenon as compared to an Amusement Park or Water Park, which they are used to. So we believe that generating and inducing trials what essentially converts into sales and repeat visitation thereafter. So we want more number of people to enter our gates and experience the beautiful property that we have built and the world class product that we have built. Therefore it is essential how we would sample and get more people to try our product is exactly what our effort is. This also makes our base product look the best product in terms of pricing. So Imagica today offers unlimited rides, offering at this price, which many times we have realized that people do not make it in the first instant. So these are two big efforts that would help us to drive the footfall from the normal base, apart from that there is a major effort that keeps happening on the schools and the corporate business apart from driving numbers for destination weddings as the business. So one is logically getting the normal customers, the organic visitation and the others are more segment oriented visitation that we continue to work on. The efforts on corporate business has significantly increased this year and we believe that it should help us drive numbers in a decent manner.
- Pankaj Jain:** I mean I just wanted to know number of footfalls for July if you can share?
- Dhimant Bakshi:** As of now, we would not like to share that However just to give sense, despite 15 days of July being absolute downpour in this region, in the western part of Maharashtra, we have continued to hold good.
- Pankaj Jain:** Okay. My next question would be if is there any update on expansion plans in new geographies like you are planning to expand in Delhi, with a Brownfield expansion, so any update on that?
- Dhimant Bakshi:** While the consolidations are there and we have had quite a few outreaches from other state governments. The management obviously in terms of priority is trying to get the debt management part in the current balance sheet and get the balance sheet delivered sooner than later and the next step for expansion and monetization of the brand and IT and expertise that we have will surely happen., With minimal capex how we can go across the newer geographies is



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what we are continuously working on and so t you will get updates soon, I think in FY2020, we are looking forward at least initiating work on new geography once our debt management takes through.

- Pankaj Jain:** Okay Sir. Thanks a lot. That's it from me.
- Moderator:** Thank you. We have a question from the line of Sunny Agarwal from PNB Investments. Please go ahead.
- Sunny Agarwal:** Thanks for the opportunity. Are we looking to rope in any foreign brand or partner who is wanting to join our hands with us for next 10 to 20 years, so your thoughts on that? Thank you.
- Mayuresh Kore:** I think for the last couple of years, we have engaged with E&Y because there is foreign interest to come into India. However, considering the lack of government support, not many foreign players are really keen to enter this space. Imagica being the pioneer in this Theme Park space, obviously has made a name and a destination of world class standards. So there have been various outreaches but because of the high amount of debt on the balance sheet, I think the conversations were not moving ahead but as we go ahead and with the debt reduction that is proposed, you may expect some conversations to go ahead and we would be open to strategic partners coming into help us expand this brand into few other geographies in the country We really believe in the potential of this space and we have seen examples of China where I think last four to five years, there has been several big Theme Park launches. Considering that our demographics are similar to China in terms of spending propensity and the desire for the entertainment, so I am sure in the coming time, there could be some discussions that could take go ahead.
- Sunny Agarwal:** Okay. Thank you. All the best.
- Moderator:** Thank you. Next question is from the line of Vimal Sampath, an Individual Investor. Please go ahead.
- Vimal Sampath:** Have we been able to leverage on our SOH - we have so much of park in such a big area, are we getting any revenues on this front now?
- Dhimant Bakshi:** Yes, so it is a very interesting question .Firstly, we have target to monetize spaces, which your built mass, spaces, which we have started to lease out. So that is one aspect of SOH that has got kicked in. Also this quarter itself we have been able to make good breakthrough on advertising SOH as well. So we have clearly focused on this area as we have discussed in the last one or two calls and this has a focused target as well as the effort to drive numbers.
- Vimal Sampath:** So can you give some figure, I mean what revenue have we been able to generate?



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- Dhimant Bakshi:** Yes, so in the Q1 we have almost 46 lakhs of rental plus SOH income from this segment.
- Vimal Sampath:** Okay and what about your space for retail, have we been able to do anything on that?
- Dhimant Bakshi:** Yes Sir. So like I told you, we have given some of the concepts on rent and thats where we earn and that is over and above the numbers that I told you. So that is a rental income.
- Vimal Sampath:** So rental income is apart from this 46 lakhs?
- Dhimant Bakshi:** Yes.
- Moderator:** Thank you. Next question is from the line of Prachi Dave an Individual Investor. Please go ahead.
- Prachi Dave:** Thank you for taking my question. Pardon my knowledge, but I would like to understand how this debt plan is going to work because of the hotel debt reduction? Will we be getting any revenue from the hotel and it will stop?
- Dhimant Bakshi:** So once the hotel is sold, there would not be any direct revenues that we will get, obviously because it is a change of ownership. However, there would be alliances through which we can get certain missionary income.. So like we tie up with any other hotel and there are benefits that is the same arrangement that we may continue.
- Prachi Dave:** Would it work in any way that you would take your customers to them, so they might give you like 5% of commission?
- Dhimant Bakshi:** Exactly. Hotel gets aided a lot because of the park as a property and therefore lot of people stay in the hotel today because there is a park of our size and pleasure next door. So these arrangements can always be worked out and we see that there is an opportunity as well.
- Prachi Dave:** Have we arrived at the number or it would be worked out?
- Dhimant Bakshi:** No madam. These are early days. It will depend on what is the kind of packages that we arrive at but it is a larger done thing in the industry, so it is not something, which is very complicated to do. So we would embark on it at the right time.
- Prachi Dave:** Okay. Perfect. Thank you.
- Moderator:** Thank you. Next question is from the line of Vimal Sampath an Individual Investor. Please go ahead.



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- Vimal Sampath:** We were having this night events, so what is the outlook on that? Have we tied up with some event managers? ., What is the situation now?
- Dhimant Bakshi:** So Imagica By Night, Imagica High Street are concepts that we like said that we would be promoting. We did the anniversary bash this quarter and we think we also did a small event. We had figure of the template which is not a very heavy production cost event then we think that these events have been classified into organic and inorganic in nature. So organic is where there is a logical customer demand and they are looking out for avenues to go out. Those are the events which will be making mega scale whereas the events which are inorganic we would work on a tight budget typically like what you have seen in Bollywood where it is the blockbuster, high star cast movie or which is a low budget movie but rotates faster. So that is exactly the model that we are employing, you will see some action in this genre in Q3 FY2019.
- Vimal Sampath:** Has this tent thing as a concept worked?
- Dhimant Bakshi:** Yes tent as a concept has also been successful and we would again be doing this in Q3 FY2019. In Q2 FY19, because of monsoon we do not do that for convenience and safety reasons.
- Vimal Sampath:** That is right. Thank you.
- Moderator:** Thank you. Next question is from the line of Deepak Malhotra from TPG Consultancy. Please go ahead.
- Deepak Malhotra:** Another question related to the competition. There have been some news reports that Turner International India in partnership with Rajgreen group is going to set up a new park called Amaazia confined in Surat in this year itself, any comments on this?
- Dhimant Bakshi:** Amaazia Water Park is already operational since almost a year and we also like you are hearing that the Amusement Park would come up, so only comment that I can have is that more the number of players, higher is the push to the category and it will only improve the opportunities for Indian Customers to experience outdoor recreational activities, which really is the need of the hour, so we welcome them with whole heart.
- Mayuresh Kore:** We have also tied up with Chhota Bheem, which is very popular character, I think Turner also enjoys some characters which are there.
- Dhimant Bakshi:** I am sorry I did not get the question on the character part, we were not very audible unfortunately, so having character integration in amusement/theme park is always a welcome thing and it would improve the experience of Indian consumers world over. This is a phenomena that really holds forth for every park owner and everybody looks for tying up or having a good association. That is exactly why we had got Chhota Bheem on board and we are in fact open to



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other players as well and it is really the way to go, so we completely support Amaazia's initiative.

**Deepak Malhotra:** Because Turner has such theme parks in Pattaya and Dubai, we have got this information already. I do understand that it will basically give a boost to the category, how it will play on the competition part?

**Dhimant Bakshi:** It is always that whenever such new introductions happen, it adds value to both the players, in fact people who do not have characters get an impact and the size of the business is such that one or two parks cannot really take away each of the business in fact because they will talk about it, we will talk about it, it grows. Generally in retail, you would have always seen that two to three brands, showrooms are next to each other, but they do not take away business from each other, but they drive more footfall to that base and that is the same phenomena that would happen. And because Surat and Mumbai are not so far, people would in fact flock in this region and that works better. There is a same thing that is happening on Mumbai-Pune Expressway today, it is helping everybody.

**Deepak Malhotra:** Okay. My second question is in terms of what is the outstanding debt on the balance sheet and although again some of your plans have been in public in terms of trying to reduce the same, can you just kindly give an update on the same please? Thank you.

**Mayuresh Kore:** As I mentioned previously the total loan outstanding as on June 30, is Rs.1,030 Crores and post asset sale envisaged, we anticipate the debt to come down to Rs. 740 – Rs.750 Crores and so that is the latest number.

**Deepak Malhotra:** There was also a talk of raising some money from private equity getting a strategic partner, although you did mention that you are open to the strategic partner, but have discussions really moved at the serious level on that?

**Mayuresh Kore:** Discussions and interests are there, but I think post asset sale and post debt coming down by 30-35%, and at that point I believe the discussions have a potential of moving forward because as I mentioned previously, India as a market, global players would not ignore for long. I think they would not be really looking forward to Greenfield investments, considering the various government approvals and the road blocks and developing such large project, so I am sure in a year or so the conversations will move ahead.

**Deepak Malhotra:** Sometime back, in terms of your vision 2021, you have indicated certain targets which you can achieve in terms of footfalls, EBITDA levels and so and so forth, so how are you on the path to achieve it?

**Mayuresh Kore:** So you are right, I think we have layed down negligible target and we have taken up the challenge. We really believe that with the level of current capacity utilization and the level of



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activation in the current market, where Dhimant even mentioned we only have 17% of the addressable market, so there is really room for improving footfalls and being the highest operating leverage business., Any incremental footfalls would really be 85% straight flow to the EBITDA. So all the efforts today are really towards driving the footfalls and there is a huge market in terms of a primary market as well as secondary market waiting for us. And I am sure with all the initiatives that we have taken from the customer's perspective to improve the offering, to improve access to the park, I think we will be on track to reach there and if not to exceed those numbers.

**Deepak Malhotra:** Is it impediment to go for a little exponential ride, because now we are in the market for last six to seven years. I mean it is really well established, people are now well more accustomed to be idea going to a Theme Park and there are others too in the competition who are doing quite well, so what it needs to be that when you have the best products available in the country and we are located in a suitable geographic area why we are not able to increase that in spite of the management's best efforts?

**Dhimant Bakshi:** Yes, so I think it is really the tourism which really is the gap, not the catchment activation. If you see the way catchment has responded in fact almost 7.5 million visitors in five years is really by any standards not a small number. In fact whenever we talk to industry professionals, nationally and internationally they really applaud that the kind of numbers that Imagica has been able to drive. So one thing if you look at places such as Orlando or Singapore or Hong Kong, which is propelled by tourism where the government and the private bodies come together to make an ecosystem that is very conducive for people to travel and there are shops available to private players to generate tourism. Somewhere that factor has not yet kicked into MTDC and Maharashtra government as well and we in fact would want to make more serious effort there all the way we have been trying that is really the delta., So if you see, today, our outstation visitors if you take Mumbai, Pune, Gujarat and the rest of Maharashtra out, it is almost 14% of our visitors who come from national visitation. So Imagica is a national product, not only Mumbai product or Pune product and that s something where we need to go to., So technically if you put some of the players in the amusement park business they have two to three locations and their number on the revenue or footfall is almost around our one location so it talks about itself. But the important thing is kicking in tourism in a bigger way and that is really the area which we have to go after.

**Deepak Malhotra:** Thank you. That is all.

**Moderator:** Thank you. Ladies and gentlemen that was the last question, I would now like to hand the conference back to the management for closing comments. Over to you Sir!

**Dhimant Bakshi:** Thank you very much for participation and we look forward to get in touch with you on the next call. If you have any questions in the meantime, you can feel free to get in touch with us or our Investor Relations Company. Thank you very much.



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**Mayuresh Kore:** Thank you.

**Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Adlabs Entertainment Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.