



**ADLABS** Entertainment Limited

“Adlabs Entertainment Ltd Q1 FY-16 Earnings  
Conference Call”

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**ADLABS** Entertainment Limited



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**Moderator:** Ladies and gentlemen good day and welcome to the Quarter 1 FY16 Earnings Conference Call of Adlabs Entertainment Limited. This conference call may contain forward looking statements about the company which are based on the belief, 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kapil Bagla – Director and CEO Adlabs Entertainment Limited. Over to you sir

**Kapil Bagla:** Thank you Daniel. Good afternoon everybody. I'm very pleased to welcome you all on the second earnings call of Adlabs Entertainment post our listing and I think it's a good day to be on the call as we are very pleased to announce the 1<sup>st</sup> Quarter results of FY16.

As you would have already seen that most of our KPI for the results have grown and have improved quite substantially. The footfalls to both our parks that is Imagica and Aquamagica put together stand at 5.4 lakh visitors vis-à-vis 1.81 lakh visitors which is a growth of 198% on year-on-year basis. Consequently the revenues of Q1 is Rs 85 crores vis-à-vis Rs 36.3 crores recorded in the previous quarter which is a growth of 134% and consequently the EBITDA for Q1 stood at a robust 24.7 crores versus a loss of 2.24 crores in the corresponding Q1. We also posted for the first time a positive cash profit which is EBDT of Rs 1.67 crores versus a loss of Rs 28.3 crores in the current in the corresponding quarter. I think in all parameters the performance has been quite encouraging.

As envisaged both our parks, the Theme Park and the water park are complementing each other and are working extremely well as a combination. Imagica is focused on attracting children, families and groups and corporates while Aquamagica is focusing on attracting youth and the college segment. Put together both the parks cover almost all the segments of customers for our business.

The key highlights of the performance and some of the key factors contributing to performance were, one, our price sampling model which we introduced in Q1 has been very successful, for example our Happy Tuesday product that we offered for a single price of Rs 999. With a mere reduction of 30% in pricing on a weekday we were able to achieve a growth of over 300% on a Tuesday. In fact we had four such Tuesdays in Q1 where the footfalls were over 12,000 visitors in single day. Similarly we introduced the property called Lazy Sunday wherein we gave customers a free bus travel from Bombay, Pune and Lonavala which also encouraged the customers to actually go out on a typical lazy Sunday and our activation on buses actually jumped 5 times. We should all appreciate that we are in a business where a day capacity is perishable in nature and it is better that we activate the capacity utilization on a particular day to boost to our revenues. Hence we can say that the price sampling strategies have worked for us.

The other factor which contributed to the growth of business in this quarter has been the sales channel activation. For a product like holidays and vacations and for activation of non-catchment area, it is necessary to have a robust B2B channel network. Our team had spent last six months of the last financial year to create this network. We have augmented a travel agent from about 950 in January '15 to now over 3500 agents of which about 1100 agents were added from April '15 itself. I think there has been a good augmentation of the sales B2B network. Consequent to this the sales network performed extremely well in Q1 and contributed about 15% of the footfalls in Q1, approximately 81,000 tickets against the 23,000 tickets that were sold in the previous quarter. We have initiated our efforts to expand into 12 metros and mini-metros mainly Nasik, Aurangabad, Kolhapur, Rajkot, Surat and Hyderabad in Phase 1 and we will be adding subsequently PSA network in Delhi NCR, Indore, Bangalore and Jaipur by October 2015.

The another theme that worked for us in this quarter is over marketing campaign, our advertising campaign on TVCs on IPL was very well received and the customer response and the customer recall for those CVCs was very good. Similarly our outdoor campaign which we did in Bombay, Pune and Gujarat were also well-received by the customer, these three factors contributed largely to the growth of footfall that we have seen in the 1<sup>st</sup> Quarter.

We are now waiting for another milestone for our project which is the launch of Novotel Imagica Khopoli in August. The hotel as we speak is totally ready, trial runs are going on and very soon we will be announcing an opening date for the hotel. By this we will achieve a major milestone in Q2. The Novotel management as our core and their sales networks are extremely excited about the business prospects of NIK. We have already showcased the hotel the number of corporate visitors as well as social event agencies. Enquiries and advanced booking generated have been quite encouraging. Even our travel agents are very excited to market Imagica as a holiday destination. We will be offering very attractive stay and park packages in Novotel adding to a significant offering in our product portfolio. With the launch of hotel in August our positioning of Imagica as a one-stop holiday destination and a visibility created by the launch is expected to help our numbers in Q2 as well.

Further as we had also discussed last time that it is important to invigorate the market with adding new products to our existing portfolio in Imagica and Aquamagica. This will be our medium-term strategy. Basically addition to our attraction and offering to our park every year or two with a view to one increased capacity and two to invigorate the park and encourage the repeat visitation it's an important path to keep the footfalls and visitation of the park running. Now with Imagica completing 2 years and Aquamagica also launched successfully we are now planning to move ahead with our plan. For example in the water park we have seen that in the summer season of Q1 Aquamagica has shown a potential to cater to a much larger demand than the existing capacity that is there in Aquamagica which is about 5000 people. We are planning to augment one large-format attraction in the water park so that for the next season next year we are ready for a much increased capacity and a much larger customer in take in the water park.

As far as the hotel is concerned with the signing of Novotel, the 116 rooms of first phase will be launched in August. However for the balance rooms in hotel we are targeting to complete it by the end of Quarter 3 and/or early Quarter 4. We are upgrading these balance 170 rooms as per the direction on Novotel and Novotel standards in terms of interiors and facility. This will potentially enable us to increase our ARR which were earlier estimated some in the region of 4000 to 4500 to about 5000 to 5500. This improvement and with the Novotel standards I think we are targeting improving our ARR.

As we have also informed in the previous call, we are now working on our concept of the Adventure Park and I think the planning stage and the conceptual planning of the Adventure Park is presently underway. We hope to start work on this park maybe sometime in September and October and probably during the next call I will give you a much better update on what has happened to this. The snow park construction is progressing very well and we hope to complete the construction as scheduled by December 2015 and hopefully launch the snow park immediately. With the snow park and the Adventure Park we will further cement our position of Imagica as a one-stop entertainment and a holiday destination. I think with all these additions that we are planning and the way that we are working these expansions, we are very well aided to plan our growth trajectory for FY16 and even beyond.

The other important activity that happened in Q1 was a reduction of our debt. Approximately 250 crores of debt has been paid back and the current debt outstanding is now around 874 crores. With the repayment of debt the debt equity has improved to a healthy 1.27:1 and the current interest rates outgo has reduced by Rs 2.24 crore per month. We have also improved our credit rating to investment grade in the credit parlance and we have also applied for our lenders towards the interest rate reduction. We are quite hopeful to get an interest rate reduction and if that happens and then probably our savings on interest cost will increase by another 30 to 40 lakhs per month so effectively we should basically save around Rs 2.6 crores per month. I think this has been really the key milestones and the key activities of Q1. I am thankful to the investor community to having reposed faith in us during IPO and even subsequently. I'm sure we have been able to show some of the results as we had earlier promised and indicated to you when we first met during the road-shows.

This is all that I have to say as my opening speech and we can cover some more points during the Q&A.

**Moderator:**

Thank you very much Sir. We will now begin the question and answer session. Our first question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

**Jai Doshi:**

Kapil and Rakesh I have just a few bookkeeping questions initially. There is a significant jump in employee costs, advertising sales in marketing expense and repairs and maintenance. I think you have run some advertisements on IPL which may have partly with the reason for it but what is the run rate that we should look for FY16?

- Rakesh Khurmi:** Advertisement in this Q1 in all, you are right there are two main reasons, first we have spent little more on the marketing activities because the run-rate was going good and we wanted to further capitalize. Second is on account of the increase in the selling and distribution charges which is also nothing but the commission paid to the channel partners because the sale was good from the channel partners. But ongoing basis I think if you look at the clock, for marketing we are looking at total clock of around at a quarterly level this 19 crores may not be the total clock so 15 crore should be the number you should be looking at, including S&D charges and the marketing promotional expenses.
- Jai Doshi:** On employee and on repairs and maintenance, is this the run rate that we should assume for the remaining?
- Rakesh Khurmi:** For repair and maintenance this would be the run rate because if you compare vis-à-vis the Q4 or the Q1 last year the run rate was not a steady-state sort of run rate with the first you run rate and there is a water park addition also, so in this year on an average you can look at around 1.4 crores per month sort of running expense for repair and maintenance.
- Jai Doshi:** And sorry I missed the number, your net debt at the end of quarter was?
- Kapil Bagla:** 874 crores.
- Jai Doshi:** You mentioned about 2.5 crores kind of reduction that was on the number that we are looking at so after June quarter's numbers you see another 2.5 crores right now?
- Rakesh Khurmi:** We paid the debt in the middle of May, there is part sort of reduction achieved in May and full month reduction achieved for month of June which was 2.2 crores so total saving is 2.2 plus part month is little over 3 crores.
- Kapil Bagla:** But the run rate could be in the region of Rs 2.2 crores if the current interest rates are there. But if we get the interest rate reduction from our lenders then probably that reduction could go up to 2.5-2.6 crores.
- Jai Doshi:** Now if you could throw some light on what will be the capital expenditure if you are incurring any for Adventure Park and the large attraction for Water Park that you're planning?
- Kapil Bagla:** As we had indicated earlier, typically the growth CAPEX that one should assume for adding attractions and adding new offerings to the park should be in the region above Rs 30 to 40 crores annually. This will probably not happen every year but probably happen every alternative year. That is the run rate that we should assume for any growth CAPEX. How much will come in March this year, how much will come in one year will depend on the way that the implementation of these attractions are going to happen.
- Jai Doshi:** Could you give us some guidance on breakeven for hotel and with 116 rooms a breakeven is possible or we can expect that only when the full hotel is operational?

- Kapil Bagla:** As far as the current business plan of the hotel is concerned, 116 rooms, we might not exactly achieve a breakeven I think we need to get to at least to a room level of 150 to 175 rooms. But that is the matter of a few months only because with 116 rooms it is not just the rooms that we are launching but the entire common infrastructure which is restaurant, banqueting and all the other services are already being launched in Phase 1. Effectively while on paper we can say that it will take about 150 to 160 rooms to do cash breakeven. But the non-room income which is the focus of Novotel as we seek which is banqueting which is MICE which is social event, if that picks up then we probably might just sail through much faster.
- Jai Doshi:** Whenever it becomes fully operational what would be the occupancy levels that would be required for breakeven?
- Kapil Bagla:** General level for occupancy and a full-blown level is about 35%.
- Jai Doshi:** The 35% when you have all 287 keys operational you breakeven and is that right?
- Kapil Bagla:** Yes cost run rate on a full-blown basis is roughly about Rs 2.5 crores a month.
- Jai Doshi:** Now this one request, I know you don't prefer to share breakup of footfalls between Imagica and Aqua Magica but it becomes very difficult for us to assess or understand any trend without those numbers, so if you could reconsider that and having said that if you could provide some color on this quarter's performance vis-à-vis last year for Theme Park?
- Kapil Bagla:** Yes I know we are trying to move away from individual Park guidance because everywhere in our marketing, in our sales we are positioning it as a destination right now. So things keep on happening, there is seasonality elements that effect a certain Park, there are certain preferences, certain stuff that effects, so ideally speaking as long as we understand that the activation to footfalls to a destination is happening to a level that we had anticipated I think that should be good for us at least that's what we are believing internally, but I'm sure Rakesh can throw some more light and some more analysis and color on these numbers.
- Rakesh Khurmi:** To further drill down the footfall, so in this quarter what we have achieved this 5,39,000 and Theme Park is 2,98,000 and Water Park is 2,41,000. So in terms of mix it is 55% Theme Park, 45% Water Park. And last year it was only theme so that was 1,81,000. So purely theme to theme if you look at there is a growth of 65%. At a consol level the jump is 198%. So that answers the question.
- Moderator:** Our next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** First of all we have achieved EBITDA margins of around 32.8%, so are these margins sustainable at current levels?
- Kapil Bagla:** 100% they are.
- Pawan Kumar:** The steady-state margins that we are expecting?

- Kapil Bagla:** The target to market for the current run rate is in the region of 30-35%. So if we achieve these kinds of numbers going forward you know that it is a highly operating leveraged business so once you achieve your breakeven 85% of your top line actually goes to the bottom line. So I think on a reasonably steady-state basis and expectation of 30-35% EBITDA margin we have not....
- Rakesh Khurmi:** This year this is sustainable, next year onwards in fact it will be even better.
- Pawan Kumar:** I was asking this because this is the first quarter and traditionally third-quarter being stronger the margins can be much higher?
- Kapil Bagla:** So when I say 30-35% we are talking an average margin over the year on a full year basis.
- Pawan Kumar:** Secondly, what would be the CAPEX that we undertook on Novotel Hotel and what is the CAPEX that is expected to be capitalized this year?
- Kapil Bagla:** The total CAPEX for 287 room which is the total capacity of the hotel, is roughly in the region of 165 crores which are taking pure asset CAPEX, not land, not pre-operative, this is only pure play CAPEX that we are talking of which because the first phase of hotel we probably would have spent close to about Rs. 115 crores and the balance Rs. 35 crores is to be spent now.
- Pawan Kumar:** Currently how much would be coming on the balance sheet?
- Kapil Bagla:** Depends if we were able to complete the entire Hotel which we are planning to do it by December end, January, I think the entire hotel capitalization will come in the FY16 balance sheet.
- Moderator:** Our next question is from the line of Rajesh Zawar from Motilal Oswal. Please go ahead.
- Rajesh Zawar:** I wanted to understand on this Novotel side, we are talking about 187 crores CAPEX on the asset. Just from a Novotel perspective how the hotel management would be or this facility management will be done by Novotel or how is it?
- Kapil Bagla:** It is a management contract that you have in typical foreign brand. They will get a fee for the management. It is a formula between a certain percentage on the top line and a certain percentage on the operating profits of the hotel. If you effectively calculate it will work to about 6.5-7% of the top line as the management fee.
- Rajesh Zawar:** 6.5-7% when you are talking about including both as a fixed part and the operating... so this 6.5-7% is at what occupancy level you are talking about?
- Kapil Bagla:** We are talking out of occupancy levels of about 35-40%.
- Rajesh Zawar:** So that's where you are talking about that the breakeven levels also similar to 35%?

- Kapil Bagla:** Exactly.
- Rajesh Zawar:** And that includes in the 2.5 crores number what you are talking about?
- Kapil Bagla:** Absolutely.
- Rajesh Zawar:** When you are talking about this 35% breakeven you mentioned in your opening remarks the ARR of some 4500-5500.
- Kapil Bagla:** Correct.
- Rajesh Zawar:** So one clarification, you said that from 4500 we have to increase it to 5500, it was related to an additional CAPEX somewhere on the properties or something?
- Kapil Bagla:** See earlier when we had envisaged the project we had considered to do it almost like a 3 Star family hotel but with the Novotel coming in now the hotel property and I'm sure some of you will come in when the hotel opens it, to understand it is a 5 Star property. So your expectations of ARR when we did the business and in now in actuality is I think the Novotel management itself is very enthused that what are the kind of ARR's that they can achieve in this project.
- Rajesh Zawar:** When we talk about these footfalls and from the park perspective that brand Magica and Imagica, so this footfalls how do we look at it in terms of our optimum capacity or where we can take this footfall to on a monthly basis or quarterly basis, how do we look at it?
- Kapil Bagla:** Let me just give you a sense on the capacity and how things work particularly in the theme park and a water park. So our daily capacity for the theme park, design capacity is 15,000 people per day. For the water park is 5000 people per day. So between the two parks we can do 20,000 people per day. So now to that extent if you do our annualized capacity it is roughly about 7 million people per day. In the first quarter we have achieved footfalls of 5,40,000 against a capacity of...I mean if you see a quarterly capacity of let's say close to about 1.8 million people, a capacity utilization of about 28-29%. But this is an average capacity utilization. You have to work around the peak day capacity that you can cater. So in this quarter we had on one particular day which is 26<sup>th</sup> of May, if I am not mistaken, had a footfall between both the Parks about 17,250, that means we operated the Park almost at about 75-80% capacity utilization. So I think that was the kind of activation level that we could achieve in Q1. I think those times are very encouraging.
- Rajesh Zawar:** Now from the operations perspective as we move ahead or the way our footfalls are increasing what would be the cost associated with which your operational cost where we will see or the line items where we would see on those where the impact would be? Is there going to be an augmentation in terms of the line item of raw material?
- Kapil Bagla:** No, I think the way this business model works is that the operating costs are pretty fixed in nature, whether you have 5000 people or you have 10,000 people the number of manning positions because of experience related stuff and because of the way that you want to position



the park its almost the same, so we will not see any significant increase in fixed operating costs what we will see probably is inflationary.

**Rajesh Zawar:** I am saying the inflation part apart from that what the line item which mentions your raw material and other expenses, power and fuel, that's the only one which would be tracking the revenue?

**Kapil Bagla:** Yes, that should be what we were tracking right now. As we said, that Q1 we are doing a large amount of capacity in terms of the intake capacity. The operations have been designed to cater to this kind of footfall, so you will not see any significantly increase in fixed costs.

**Rajesh Zawar:** Now from the CAPEX perspective you mentioned that alternate annual years there can be 30-40 crores depending on the rides and all those things that growth CAPEX what you were talking about? Is that right?

**Kapil Bagla:** Yes.

**Rajesh Zawar:** From the debt level perspective including this Novotel and whatever rides we are talking about for this year what would be their cash spend which is still left on our Balance Sheet for this remaining three quarters?

**Kapil Bagla:** In terms of the CAPEX spend should be in the region of about 70 odd crores.

**Rakesh Khurmi:** Few things put together about maybe a little more. Total amount expected is around 70 crores.

**Rajesh Zawar:** 70 crores in terms of the cash outflow?

**Kapil Bagla:** Yes.

**Moderator:** The next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.

**Pawan Kumar:** If we look at your Other Expenses item in the Profit and Loss statement, it is actually continuously coming down. What would it consist of exactly?

**Rakesh Khurmi:** In Other Expenses basically we include Housekeeping, Security, IT Expenses, Administration which is G&A, for F&B, for Retail and for maybe Admin Office and also the Entertainment expenses. All of them put together. We have done lot of rationalization and we have been able to optimize cost on Housekeeping and Security which are the two main line items in this.

**Pawan Kumar:** So is this the run rate we can expect from this?

**Rakesh Khurmi:** That's right.

**Pawan Kumar:** Secondly regarding the advertising expenses it is presently at around 22% so what is the annualized as a percentage of revenue advertising expenses we intend to do?

- Rakesh Khurmi:** Currently the way this head is structured we have selling and distribution, promotional expense, the hardcore MARCOM spend, and also the transaction charges which is like the online website related charges. So as I said the current quarter numbers will look around 90.34 because this quarter was heavy maybe next one is lighter so put together we are looking at around 15 crores sort of number under this head.
- Pawan Kumar:** Consequently for the next three quarters.
- Rakesh Khurmi:** Overall percentage-wise we are looking at around 20%, currently it is 23.
- Pawan Kumar:** Regarding the Employee Expenses are they expected to go up or stay at the current level, maybe the Novotel Hotel operation maybe some additional....
- Rakesh Khurmi:** That will be an addition but otherwise, for example, the increment effect is given so this cost is going to be at the same level.
- Kapil Bagla:** For the past operations should continue with the same level.
- Pawan Kumar:** Can we expect around 20% levels or lower, presently it is at 18%.
- Rakesh Khurmi:** Yes, so it is 18% so without Hotel it will keep coming down only because this will not go up, as a percentage this will keep coming down on a yearly basis, of course, this year it will be in the same bracket.
- Pawan Kumar:** Your internal assessment of the expectation of footfalls we can do for the year?
- Kapil Bagla:** That is something we actually take it by the quarter and at this point in time we are not curbing a number on an annual basis but if you see the trend that we are seeing in the current year and the current quarter I think we are at least targeting some very healthy growth in the full year.
- Moderator:** The next question is from the line of Sonal Gandhi from Anand Rathi. Please go ahead.
- Sonal Gandhi:** Just wanted to check on the realization part, year-on-year it has come down pretty much about 20%, one reason for that like you mentioned is because of Aquamagica but I believe Q2 we will have more footfall coming from Aquamagica and secondly we had this discounts in July so could the realization per footfall go down further?
- Rakesh Khurmi:** First I will give the breakup of the actual movement vis-à-vis last year, so Q1 if you look at this year we have achieved consolidated average realization of Rs. 1,577 and last year it was Rs. 2,008, so it looks like there is a drop of around Rs. 430 odd but primarily because only 45% sale done by Water Park as I gave you the number which takes care of around Rs. 330 sort of shave off on the overall consol realization and solely is not that, that there are two more reasons – one is the Tuesday because Happy Tuesday was a sort of one-day promotional effort and we ran a theme of Rs. 1,000 so there was a discount, so if on this quarter if we look there is another movement of around Rs. 50 on account of Happy Tuesday and the third one is the

service tax. Because service tax is also taken out of the revenue for the month of June which was not the case last year, so there's another Rs. 43, so that is in our books Rs. 425 out of the ----- So that spend is how it is because all the main factors have already been factored and if we continue to have the same mix of Water Park and Theme Park the impact is going to be there and service tax and Happy Tuesdays all those things they contribute even on the same kind of percentages, we should be able to maintain the same number.

**Kapil Bagla:** But on a like-to-like basis there will not be. If you see the kind of activation that you achieved in Theme Park, so if we just say Theme Park, then the realization for 2000 odd is actually only gone down by 1900 with the activation multiplying so much. Strictly speaking on a like-to-like basis we have held onto our realization quite a bit.

**Sonal Gandhi:** Secondly on Novotel Hotel the Employee Cost in the trial run, is it being capitalized or are we taking it to employee, employee cost in our P&L?

**Kapil Bagla:** Right now they are part of CWIP and part of pre-operative.

**Sonal Gandhi:** Thirdly, just wanted to check on the insurance coverage that we have, do we have coverage on per visitor basis or how do we do it?

**Kapil Bagla:** No, it is an asset based coverage.

**Sonal Gandhi:** Not on the visitor?

**Kapil Bagla:** No.

**Sonal Gandhi:** So could you share the number?

**Kapil Bagla:** For?

**Sonal Gandhi:** The insurance coverage that we have right now?

**Kapil Bagla:** We take them three types – one is the fixed assets, the other is the general liability because there could be a claim from the customer if there something which just goes wrong and third is the typical terrorism kind of a thing so basically what we have cleared is around Rs. 20 million for Rs. 2 crores for the insurance.

**Moderator:** The next question is from the line of Priyam Gupta from SPA Securities. Please go ahead.

**Priyam Gupta:** You have had a power supply agreement with Maharashtra State Electricity Distribution Company that is valid up to 31<sup>st</sup> March, has that been extended?

**Kapil Bagla:** It is extended.

**Priyam Gupta:** So what is the escalation on that?

**Kapil Bagla:** In the agreement it's only for supply, the rates that are charged are whatever charged on a monthly basis. Those rates are governed by MERC that is the tariff that you pay typically that you get pay every month's bill.

**Priyam Gupta:** Your first quarter is likely to be your strong quarter just because of the holiday season, summer vacation and everything; do you expect the footfalls to continue in the second quarter as well?

**Kapil Bagla:** See, which is what I think this is for you as well as for the larger audience if everybody is hearing, I think we expect that the positive trend should continue in Q2 as well and in the monsoon season, so the reason that we are very optimistic in terms of the trend and what we have seen in July also is that first of all this is the first season where the Waterfall Aquamagica and the Theme Park are operating together and they are complementing each other. Generally there is a propensity of the customer fuels the Water Park during the monsoon season and so we feel that the Water Park and the Theme Park combination will do very well in the monsoon. The other theme is that now with the increased awareness of the market, that we operate 365 days in a year and that's our attractions and our Theme Park is designed to take into account climatic conditions like monsoon as we have almost 60% of our attractions covered and air-conditioned, we are seeing that typically our call centers are receiving much less enquiry calls saying that whether you are working or not responses because now people are aware that Imagica runs 365 days in a year. I think to that extent the positive momentum that we had established in Q1 continues in Q2. The other factor for local people as you know that Lonavala Khandala becomes a natural weekend destination in the monsoon season and our sales office in Lonavala and the agent network in Lonavala has been very active and busy directing customers to Imagica and Aquamagica. So I think with all these three things factors working for us we feel that the momentum of footfall should continue in Q2 as well.

**Moderator:** The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

**Jai Doshi:** Do you have a facility or ability to track repeat customers at Theme Park, how many of your customers on a monthly basis, what percentage is probably repeat or is it too early?

**Kapil Bagla:** We track repetition, in two ways we are tracking our repetitions to that extent, one of course, for the online booking that we have we do close to about 25-27% of our tickets which are online of the tickets, so I think there you get all the data of the customers booking in. That is one track for repeat customers. The other way that we track is that we conduct almost about 250 to 300 park customer feedback service every day in the park. So we have a database of about 25000 surveys which keeps on tracking visitors in track. So based on these two data input points, our sense is that for the last year we had about 9% of our visitors who have come twice or more than once. And about 2.5-3% visitors who have come more than twice. But this is a statistical data, it is not a 100% accurate data but obviously with this kind of statistics give you a pretty reasonable trend actually.

**Jai Doshi:** What is repeat customers percentage of total footfalls at a global level?

- Kapil Bagla:** Matured parks. There are two ways that people capture the footfalls of repeat customers. One is what is called what they sell is the seasons ticket on an annual pass and multiple basis. So we have also introduced a season ticket about one month ago, it's called the Adlabs Annual Super Save Pass which actually enables three entries to our parks, any of the two parks you can enter three times in a year. So I think matured parks like Cedar Fair, Disney, generally meet close to about 23-25% of their footfalls through season pass. When I say season pass I am assuming that they are our repeat visitors.
- Moderator:** The next question is from the line of Tanmay Sharma from Edelweiss. Please go ahead.
- Tanmay Sharma:** My question is more on footfalls. I wanted to know what has been the growth in our walk-ins because I think that will give a more idea of what has been the like-to-like growth for us in the Theme Park.
- Kapil Bagla:** The growth in walk-in, when I say walk-in we include three items in that, walk-in, web bookings and call centre because those are basically your FIT customers. So the growth in walk-ins has been very healthy actually speaking, roughly about 50%.
- Tanmay Sharma:** In the Theme Park business, right?
- Kapil Bagla:** On the Theme Park, we are talking only on Theme Park.
- Tanmay Sharma:** On the Operating Cost front what percentage of total cost will be fixed, around 70%?
- Kapil Bagla:** On the Operating front?
- Tanmay Sharma:** Yes, total Operating Cost that is fixed?
- Kapil Bagla:** For us we are considering even marketing and sales cost fixed only because it's a consumer product and we have to continue market but if you take that out from the equation then the cost of goods sold which is absolute variable cost and a direct variable cost is about 15% and if you take the marketing cost which is another 17-18% you are right, about 70% of the costs are almost fixed in nature.
- Moderator:** Our next question is from the line of Ankit Kedia from Centrum Broking. Please go ahead.
- Ankit Kedia:** My first question is regarding service tax, you mentioned that there was a Rs. 43 impact on revenues for service tax only one month, so is it safe to assume for three months we will see around Rs. 130 impact of service tax in the second quarter?
- Rakesh Khurmi:** This is like the total service tax paid in the month of June divided by the quarter number. Per se if you look at it should be the 14% of the entire ticket revenue of June. So if you look at on a like-to-like basis so the average realization is 1500, at the unit level if we count right so 14% of that will be around Rs. 210. And out of that basically around 40% we have passed on to the price increase and around 20% is available to the input credit so 40% remains unabsorbed at a

unit level which will continue month-on-month because this quarter it was only one month so the average looks little smaller but actually on an ongoing basis this is how we have to look at the numbers.

**Kapil Bagla:** Just a very broad a rough estimate would be roughly about Rs. 60 to Rs. 70 per ticket is the impact of service tax actually.

**Ankit Kedia:** He said around 40% we will still need to pay, so from 210 40% would come to around Rs. 90 odd...

**Kapil Bagla:** We are talking about one park. When we are talking about Aquamagica together you have to see an average realization of tickets for both the parks.

**Ankit Kedia:** My second question is regarding F&B. Our F&B revenues have seen a sequential decline of nearly Rs. 40 per visitor, so what are the strategies to increase F&B revenues or was there some seasonal impact in F&B in the quarter?

**Kapil Bagla:** In an ARPU basis there might be seen some decline. There are two reasons that happen typically when an ARPU declines, one is that when your activation of visitations are much higher. We are seeing an activation level both at the Water Park and the Theme Park. On an average on Theme Park you probably spend about 7-8 hours, at least 8 hours in the park, while for the Water Park you typically in the water and around you probably spent about 6 hours on an average, so the average spend to Aquamagica is little less as comparison to Theme Park. And also what happens is that we have seen in certain days that footfalls are very large, the average ARPU goes down. Absolute numbers are very significantly high but the average ARPU goes down because people are busy wanting to get into rides rather than spending time in the restaurants and generally you are much far quicker in consumption than you are on a more normalized day. Yes, the step to increase ARPU in food is always there and we are continuing to do whatever it takes like, for example, in the Water Park what we have introduced in June and July is a takeaway option so in the evening once you are leaving the park you can actually pre-book a meal so that on your way you can take it back and eat it on your return journey. So those are methodologies that we are doing in terms of increasing ARPU to that level. We have not yet got our license for selling alcohol, big beverages in the Water Park. I think that the approval has just come so once we start selling alcoholic beverages in the Water Park that also will increase the per ticket F&B spend.

**Ankit Kedia:** Have you taken any price hikes for F&B oils because we are expecting high vegetation to continue so what does trend continue going forward or we will see it grow at 15-20% going forward or pretty much it will stay at that 270 levels odd.

**Kapil Bagla:** I think the growth is expected. The growth will expect on how much more you can consume and not in terms of price increase actually. So the way that the consumption increases is that that if you are able to make the customer have one more additional meal. So like I told you that Water Park if you can make them take one more meal with him that increasing the ARPU,

same is the experiment that we are trying with the Theme Park. Also as the hotel starts over we will be doing much larger number of banquet F&B operations in line with the groups that are staying in the Theme Park, so that will increase the F&B spend. We are obviously targeting a growth in F&B per capita spends as well.

**Ankit Kedia:** My third question was on your Merchandise and Others revenues. Though merchandise has seen a marginal decline despite Water Park you being able to charge for lockers and for costumes and others, that segment hasn't grown while others have grown significantly, so initially last call you mentioned about advertising activities what you endeavor to take going forward, so on these two items how do we look at growth increase come in?

**Kapil Bagla:** See, I think retail we are quite encouraged in terms of how the retail has been performing particularly from the Water Park as well as the Theme Park and as far as the locker sales are concerned I think those are counted as Other Income and not part of merchandising actually speaking. But pure play merchandising we are increasing point of sale of merchandising, there is one more addition that has happened in the merchandising which is the nitro F&B merchandising counter that we have added. We are constantly reviewing that so for the new season we are revamping some of our offerings in the merchandising segment. So I think the uptick in merchandising is quite encouraging. Even during the day where we had 17,000 visitors you should note that those are the segment of customers that we attracted on that day because of being Happy Tuesday was a customer segment which was aspirational but not as paying as it was in the normal day. But still we could manage a per day per person merchandising spend of close to about Rs. 100. So I think it's quite an encouraging trend that we are seeing in merchandising in our business particularly.

**Ankit Kedia:** Given the heavy footfall we saw in the quarter has Express tickets sales also increased as a percentage or it's pretty much sub-10%?

**Kapil Bagla:** No, I think on an average basis the sales have increased, we probably are ranging about 13% this quarter.

**Ankit Kedia:** You said that the season tickets you started last month so could you give us some update on the three entries what is the pricing and what has been the customer feedback on that and how has the off-take been?

**Kapil Bagla:** It's a little early days Ankit to give you a sense that I think the proposition is very attractive so what we are saying is that for 2,699 which is an introductory offer right now we are doing at 2,499 but actually 2,699 you can get three entries to any of the parks, means you can either come to Imagica once, twice to Aquamagica or anywhere around so to say. So I think to that extent the initial response has been decent. What we do is that for us any customer which is coming for the third time is an add-on because normally speaking anybody who has come thrice to the park is a great achievement because we can add another Rs. 600-700-900 bucks coming from food and merchandising for the second visit. So I think this will at some point in

time once the base level of momentum develops in terms of the number of passes sold, this will become very important element in our footfall breakup.

**Ankit Kedia:** The accounting for this would be.....

**Kapil Bagla:** On a usage basis.

**Rakesh Khurmi:** Usage or expiry, whichever is earlier

**Ankit Kedia:** If it's 2700, Rs. 900 when he uses assuming the person doesn't come the third time then how would we account for it?

**Kapil Bagla:** On the balance which is unused is accounted for once the period is over, on the day of expiry.

**Moderator:** Thank you. I would now like to hand the floor over back to the management for closing comments. Over to you sir.

**Kapil Bagla:** I think what we want to say is that as I told you that we are seeing a good trend in Q2 which is continuing but for the entire year the way that our thinking in terms of the operations is that we have three main KPIs in our business which is footfalls, second one is the ARPU or the realization and the third is revenue. Our focus this year is to concentrate on two KPIs mainly which are footfalls and revenues and be flexible and experimental on the ARPU as we are in the market creation phase. So I think one should keep in mind this particular thought process whence we are analyzing the performance of the company going forward.

Thank you very much for joining in and I hope to talk to you again after another quarter and in the meanwhile if any other questions you have specifically you can direct it to our investor relationship team which is SGA. Thank you very much.

**Moderator:** Thank you very much sir. On behalf of Adlabs Entertainment Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.