



“Prime Focus Limited Q3 and Nine Months FY16 Earnings Conference Call”

May 31, 2016



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MODERATOR: **MS. NISHA KAKRAN – FOUR-S SERVICES**



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Moderator: Ladies and Gentlemen, Good Day, and Welcome to Prime Focus Limited Q3 and Nine Months FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. I now hand the conference over to Ms. Nisha Kakran. Thank you and over to you ma'am.

Nisha Kakran: Thank you. Good afternoon, everyone, and welcome to the Q3 FY16 Earnings Call of Prime Focus Limited. We have from Prime Focus Mr. Namit Malhotra – Executive Chairman and Group CEO, Mr. Ramki – Managing Director of Prime Focus Limited and Founder & CEO of Prime Focus Technologies and Mr. Vikas Rathee – Group CFO. We will start the conference call with opening remarks from the management after which he will open the floor for questions. I will now hand over the call to Namit for his opening remarks. Namit, over to you.

Namit Malhotra: Thank you, Nisha and good afternoon, everyone, and a warm welcome. I would like to start the call with some opening remarks and update on the Creative Services business, post which Ramki will brief you on Prime Focus Technologies side and Vikas will take you through all our financial highlights.

I am pleased to report that financial year 2016, comprising the nine months' period March 2016, was full of achievements for Prime Focus. It saw continued external recognition for our work with our second consecutive Oscar win at Double Negative for Ex Machina, since we did our deal two years ago with the first Oscar coming through for Interstellar and the second one for Ex Machina, it is also the third one since the inception of the Company.

This has been coupled with strong operational performance as a result of unlocking of our synergies from the 2nd Phase of integration, resulting in strong growth in revenues, operating EBITDA and cash flows. It is a good validation to see that our customers have seen our merger in a positive light because we have seen reasonable growth in our revenues at Double Negative and across our Group which sort of entailed the fact that we have managed to build on our initial promise of integrated services. This has resulted in probably the best revenue historical output that Double Negative has delivered and a strong order book going into fiscal 2017 which is sort of unheard of in our industry or in the life of our businesses that we have had in the past.

We are seeing that our trailing 12 months' revenue are at about Rs.19 billion which have already surpassed the look back level of Rs.18 billion from three merged entities and we are progressing better than expectations on our operating targets. With bulk of our integration efforts now behind us, EBITDA is steadily closing in our mid-term target of 20%.

On the Creative Services business, we offered our bundled services (visual effect and stereo conversion) for some of the biggest blockbusters this year being Captain America, Batman v Superman and Alice in Wonderland which comes out this weekend. The Double Negative and



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Gener8 combination is helping us become a house of choice for our visual effect and 3D services for all our leading Hollywood studios.

Our integration with DNeg is going well and post launch of our facility in Vancouver, the very first for Double Negative, we are seeing a lot of positive revenue pickup and customer validation through that process. We are also starting to see a more focused and a more strategic initiative towards helping build India from a margin expansion standpoint for which substantial amount of work has already been done. As we continue to build further we have also managed to ensure that we have been able to bring our Singapore operations to a close at the end of March fiscal to ensure that on a go forward basis the businesses are completely aligned with the strategy of having our key revenue centers in the UK and Canada and a strong execution base in India from a profitability standpoint.

We have also seen during the quarter ending March 2016 that we delivered some of the biggest movies for the year, we continue to see that as we enter into financial year 2017 we have got a good line up of some of the biggest movies like Fast & Furious 8, Wonder Woman, the next Justice League from DC Comics, Cure for Wellness, Star Trek, Assassin's Creed to name a few. We are also seeing that our Indian business which focuses on the Indian film and advertising side continues to be stable, and actually making decent margins. We have delivered projects such as Fan, Neerja, Fitoor and Rocky Handsome to name a few. We have also consolidated our advertising services business in India and today can boast of having the largest creative talent pool under one roof at Prime Focus and that is starting to result in substantial revenue uptick and some of the best work that is coming out of our facilities. From "Top ads of the week" perspective we have seen India Mart, Maggie Noodles and Cadbury's Dairy Milk amongst a few that are starting to be delivered from our studios. We are also seeing decent order book for our Indian services business with projects such as TE3N, Houseful 3, Raees, MS Dhoni and Uda Punjab among others.

With this, I would like to now hand over the call to Ramki for his comments on Prime Focus Technologies. Thank you.

Ramki Sankaranarayanan: Thank you, Namit. Good afternoon, everyone. It has been a good year for Prime Focus Technologies, we saw revenue grow about 34%, and margins have been steady as we continue to invest in the business. Most notably, international adoption of our technology, the cloud software is something that we have been working for a while. FY16 will go down saying that adoption curve has started to shape quite nicely, in the last two quarters we have had over 14 wins of our cloud software SaaS business. I think it is also on the back of the goodness of cloud MAM, the broadcast cloud modules in particular and operations cloud module is probably the fastest growing amongst all the modules. It is pretty clear that this overall investment in digital our customers are making, so obviously sort of enabling this growth, this adoption and the concept of Media ERP. People started to increasingly understand that if Oracle and SAP can be that one software for the



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enterprise, people finally are getting their head around that they need a similar one in the media and entertainment space. I think that augers very well from our Media ERP Software business.

Equally on the Services side, we have seen a pretty interesting growth in the digital packaging and delivery area. I think that is not surprising, given the fact that number of OTT launches, just last year there were 30 different OTT launches in the US alone and as closer to home here in India we have seen a number of launches. You would have seen Voot being sort of advertised heavily over the last two weeks here, which we have been associated with as well. So I think digital packaging and delivery has been sort of growing quite nicely and our other businesses because I think digital fundamentally is sort of creating discontinuity, there are customers obviously doing more work with their existing library of content, so I think that is interesting.

On the product side, I am very happy to give an update saying that we have had some incredible product launches earlier this quarter, so work has been obviously done in FY16 and we launched this set of products in NAB. One of the most notable ones is a product called DAX Production Cloud where we are actually taking the goodness of DAX, that we acquired and enhanced and created the functionality inside CLEAR and finally sort of brought to market one software in which they could do dailies and post production in one platform and I think that is very unique. We launched, again for the first time in the world, a promo operations module where we automated the rendering of promo versions, I think this is very-very unique, loved by our customers, that innovation was very appreciated by everyone. So we continue to invest on the product side and which is the reason why we continue to get the traction that we do. IABM came out with industry report which continues to place the overall spends to about \$40 billion in the media technology industry which is really what we play in, and I think it is a sizable market that we are chasing and have a significant headroom left for us to grow and consolidate our position in the global market place.

Overall, metrics have been fairly steady and consistent. Our annuity versus project mix, 74% of our revenue still comes from annuity contracts and 26% comes from services projects. Likewise, our India international mix has also sort of being growing favorably towards our international side. Currently the mix is about 66:34, 66% India and 34% international. Overall I would say that PFT business has eclipsed Rs.300 crores top-line this year and we continue to see a significant potential and have a very positive outlook to how this business is growing and will shape up in the future.

With that, I would like to hand over to Vikas for him to take you through all the financial highlights.

Vikas Rathee:

Thank you, Ramki, and thank you, Namit. Good afternoon, everybody, thanks for taking the time today. And I want to start off with saying, yes we have had a little bit of fiscal year changes situation, obviously last year fiscal 2015 was a June fiscal, as such this year it is a nine months fiscal, apologies for the confusion. Just to say going forward, we are going to be a March fiscal so you will be able to see 12 months' comparative performances. We have uploaded on our website as well as, it would have been emailed to most of our investors on this call an investor presentation



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which actually does provide you a 12 month on 12 month comparison and I would encourage you all to take a look at that.

In summary, I will try to echo what Namit and Ramki mentioned. We are happy with the progress we made in fiscal 2016, we crossed Rs.1,900 crores of revenues, obviously this is significantly higher than about Rs.800-odd crores where we were, prior to the transactions or the mergers we had with Double Negative, Gener8 and also Reliance MediaWorks in India. So I think we have definitely moved forward. On that perspective, there has not only been inorganic growth, but also a significant momentum on the organic perspective where our customers have embraced the joint platform and actually given us more work.

As Namit mentioned, today we frankly have more projects on hand than we had ever before. Revenue which used to be a little bit volatile from a quarterly perspective, today that volatility is fundamentally all gone, we have more revenue and we are now pushing forward on the integration and the execution of the work we have on hand. But I think that is kind of what is showing through in our financials and we will see in the presentation. So we had Rs.1,900 crores of revenue, and delivered Rs.326 crores approximately of operating EBITDA performance in 12 months ending Mar-16, again this was about Rs.1,300 crores of revenue and Rs.178 crores of EBITDA for the comparable 12 months period last year. So it is a significant growth on revenue and obviously even more so on the EBITDA side. This will only accelerate and what we will see for FY17 is revenue growth and even more growth on the EBITDA perspective.

To get you updated a little bit on the quarter, the quarter ended March 31st, we have revenues of about Rs.467 crores versus about Rs.420 crores or so in the previous comparable quarter. March 2015 was a very good quarter for us, probably the best quarter we had in the history. We had a couple of very large projects that came in and delivered through the end of March with not much in the way of expenses, it was an EBITDA margin of 25% which at that point in time we had mentioned, is an exceptionally good performance. This quarter we are at about 17.8% - 18% EBITDA margin which as you will know from the previous calls, is in line, in fact slightly ahead of what we had guided. We are moving into FY17 with a clear target to exceed 20% EBITDA margins as Namit mentioned earlier. Along with that, you should probably see revenue growth in excess of 15% - 20% for FY17 over what we have in 2016. On the segmental side, I think the performance has been pretty good across each of the segments this year. On the Creative Services side we have gone from about Rs.929 crores of revenue to about crossing Rs.1,400 crores. So to give you a sense, that is more about \$215 million - \$220 million worth of revenue on the Creative Services side.

PFT continues to grow strength on strength, we have come very close to Rs.300 crores of revenues for a company which frankly started with less than Rs.1 crores of top-line not even seven years ago. So I think it has been a pretty consistent and strong performance there. Domestically also with the merger with Reliance MediaWorks, we have consolidated our position, we continue to be the



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studio of choice for all kind of services, growth on the advertising has also picked up and there we have delivered revenues about Rs.155 crores as opposed to Rs.120 crores for the comparable period.

On the EBITDA side, Creative Services has delivered EBITDA or as we call operating EBITDA close to Rs.220-odd crores, up from Rs.125 crores in the previous 12 months period. Prime Focus Technologies has delivered an EBITDA of Rs.80 crores versus about Rs.60 crores from the last year 12 months' period and the domestic business has grown EBITDA, again north of 50% from Rs.40 crores to about Rs.65 crores - Rs.66 crores.

So I think what you can see is the performance on the operating side continues to be robust and growing. I think let me talk about few items which I would like to highlight from an exceptional cost perspective. As Namit mentioned, we are now at the fag-end of our integration process on the creative services business, we talked about the launch of a Vancouver facility which happened several quarters ago, that has gone very-very well. We continue to invest in growing our India base, this brings us a low cost base and is really a key margin driver for the business. As part of that alignment we announced in the quarter the closure of our Singapore operations, the Singapore operations have stood Double Negative well for several years, overtime obviously the US dollar and Singapore dollar both have appreciated significantly versus the Pound. I think it was very important from our perspective to actually move that work to India at a much lower cost rather than to keep it going. That closure alone is responsible for about \$9.5 million of the exceptional charge you see, so that is about Rs.60-odd crores, close to that number.

We also during the course of March quarter sold our non-core real-estate assets overseas. We have spoken about this in the past, we sold the same for about \$20.4 million, very happy with that, most of that money is going towards debt reduction, it happened at the end of March so you do not really see enough of that impact on the numbers, on the balance sheet but you should see that when we report the June quarter. In relation to both the Singapore closure as well as the sale of the real-estate assets, there are obviously certain charges we have -on the real-estate sale perspective the charges are close to about Rs.10 crores - Rs.11 crores.

This is the lion's share of what the exceptional expenses are, as Namit mentioned earlier, we are now at the fag-end of our integration process, from a big ticket perspective I think we are moving into FY17 with the highest ever order book we have had in history across our businesses and like I said, looking forward to sustained growth on the revenue side and I think you will see even more significant expansion on the operating EBITDA perspective.

One last thing, as we announced earlier, we have moved forth on the process of monetizing our stake in operating company of Digital Domain, that process is ongoing and we will along with that be forming a joint venture in India on the advertising and virtual reality side. Between these two, it's about \$50 million - \$55 million worth of marketable securities that we will get issued to us once the shareholder process is concluded at the listed DDHL Company in Hong Kong. The



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subsequent monetization of these listed securities along with the proceeds from the building sale, a large chunk of all this is going to go towards debt reduction. And so I thought I will repeat that is a key deleveraging initiative beyond the cash from operations during FY 17.

With this, we would be happy to open the call for questions and address the same. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Jaineel Jhaveri from J&J Holdings. Please go ahead.

Jaineel Jhaveri: I just had a few questions actually. So one of the first ones is that what is the CAPEX that we expect to spend in the whole year of FY17 across all the businesses?

Vikas Rathee: From our perspective, there are two portions of CAPEX where we have fundamentally kind of worked towards, the large part is in relation to the build out of the Vancouver facility which obviously is behind us. We continue to expand our operations on the India side, so that part of the business is going to grow. So in relation to what you expect to see for FY17, we are looking at a CAPEX number which will probably be in the range of about \$20 to \$25 million.

Jaineel Jhaveri: And this is across all the business right, PFT included?

Vikas Rathee: That is correct.

Jaineel Jhaveri: And do we expect to see any more integration charges, so like any more negative charges are we expecting?

Vikas Rathee: See, like I said the large part of it was very important for us to take some decisions around Singapore and other key integration efforts during the course of FY16 to make sure that anything from a big ticket perspective is behind us. So frankly from FY17 perspective we should basically see clean numbers and not really see much in the way of any kind of large exceptional charges.

Jaineel Jhaveri: So even if there would be anything it would be a few crores and not in tens of crores?

Vikas Rathee: Yes, see we are not looking to launch any new facilities and frankly we are not looking to shut-down any, the alignment is fundamentally done, so there is nothing else which is in front of us which is planned.

Jaineel Jhaveri: And what is the planned reduction of debt that you expect to do in the whole year?

Vikas Rathee: I think we are going to reduce it as much as we possibly can. I spoke about the fact that we recently sold off our non-core assets about \$20-odd million, we are looking to monetize the Digital Domain stake as well, that including our operating performance that we expect to see for FY17, and conservatively speaking we are looking to reduce our debt by at least a third of the way we are



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right now. So hopefully 25% or about one-third of the debt is what the plan in relation to reduction, through the sale of non-core asset we spoke about and the operating performance.

Jaineel Jhaveri:

And last question, this one is for Ramki, if you could just speak a little bit about the 14 wins that we had, what are the kind of win sizes, like how big are they and how big can they be?

Ramki Sankaranarayanan: So I think some of them are very large wins, some of them are interesting logos, so we have a combination of small and big wins. I think the wins all the way ranging from about \$150,000 annually to about \$2.5 million, so that is the kind of range that we have. And it is important for us to sort of really get these wins because we have always seen that once you enter these accounts then we navigate and customers use more of our products and then we get to do more of their services. So to that extent I think these wins have been interesting, some of them we made announcements, like Cricket Australia and Global Eagle Entertainment, one of the largest aggregator of airline content. These are two significant announcements we made in the last quarter. So yes, that is really the answer to your question.

Moderator:

Thank you, Mr. Jhaveri. We have the next question from the line of Lokesh Bhatti, an Individual Investor. Please go ahead.

Lokesh Bhatti:

My question is, what is the growth outlook for FY17 and what are the EBITDA levels which we can expect for FY17?

Vikas Rathee:

We have already got about Rs.1,900 crores this last 12 months, we are looking for continued growth across all our businesses. I think conservatively we have talked about 15% or 20% of growth that you expect to see in FY17 on the revenue side. On the EBITDA side, I think the expansion would be large, just from a growth perspective from last to this year we grew our operating EBITDA more than 50%, I am not saying we cannot do the same thing again but I think what you should be looking at is, in a 20% odd EBITDA margins on a larger revenue base.

Moderator:

Thank you, Mr. Bhatti. We have the next question from the line of Salil Sharma from Kapur Sharma & Company. Please go ahead.

Salil Sharma:

My query is regarding the interest amount, which is around Rs.80 crores for the quarter and for the nine months' period it is around Rs.201 crores, so what is the exact amount of debt outstanding at the moment?

Vikas Rathee:

See, the debt we have is slightly north of Rs.1,200 crores.

Salil Sharma:

So earlier, if I remember correctly, the last quarter is around Rs.1,000 crores, so we have added another Rs.200 crores?



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- Vikas Rathee:** No, no as of last quarter we were at north of Rs.1,300 crores, so like we said we did dispose of certain assets that happened at the end of March, so some of that money has actually been, \$20-odd million is what we basically got, some of that money obviously got used towards debt repayment post the closing of the quarter. So debt actually has come down, it has not gone up.
- Salil Sharma:** And while you have mentioned that it will go down by another hopefully by around Rs.400 crores in the coming year?
- Vikas Rathee:** Our target obviously is large reduction, what I said maybe north of Rs.300 crores is what we target.
- Salil Sharma:** And the asset which has been sold, this refers to the building in LA, is it the same one?
- Vikas Rathee:** Yes, we sold our non-core real-estate assets we had in the US.
- Salil Sharma:** And the depreciation for the quarter is around Rs.80 crores which is a huge jump, so does it include that exceptional item?
- Vikas Rathee:** Yes, you see that depreciation part, you are right, the depreciation if you ask me in this quarter is frankly from one time perspective higher by about Rs.17-odd crores, we should expect about Rs.60 crores or so on a quarterly basis. The higher amount this quarter is primarily on the back of, we are going to take the charge in relation to the assets (leasehold improvements etc) that we sold off along with the real-estate in the US as well as on the closure of Singapore operations we fully depreciated the assets fundamentally in there. So that is what has yielded the increase, but you should look at this from a quarterly perspective, if you look at the number close to Rs.60-odd crores.
- Salil Sharma:** And last quarter I think you guided it should be around Rs.50 crores to Rs.52 crores, so around Rs.10 crores is due to some particular asset we bought?
- Vikas Rathee:** No, basically see there is one is depreciation on your fixed assets or hard assets.. We also are amortizing the transaction values and the intangibles that we obviously have taken on in relation to be mergers with the Double Negative and G8, and these companies obviously came along with very small net block, so most of their value is in the form of the IP that they come along with. So we amortized that as well, the combination of these comes to about Rs 60 crores or so.
- Salil Sharma:** And we are doing some exceptionally good work at the international level, but I hope you realize that the stock market is not really appreciating the whole scenario, primarily because of the loan we have taken. And I notice that in part of the management, we are taking new and new challenges, so they are very exciting, like the virtual reality thing but that tends to, you know we are overleveraging ourselves and don't we think that we should be kind of consolidating what we have done and stick to the core rather than getting into newer areas?



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Namit Malhotra:

Yes, you make a very valid point, we completely acknowledge that, we are consolidating the focus of our business more and more. When we talk about new products and new technology upgrades, see being a technology focused company for us to not be part of very-very large game changing initiatives worldwide, could set us back substantially. We are not allocating much capital for inorganic transition that we have seen. If you see the announcement we made for the sell down of our stake, we actually looked at deal structure where we are actually consolidating if not raising cash so that we can pare down debt, at the same time doing a joint venture in one of our Indian businesses in advertising to focus on virtual reality technology which will be brought by our partners in that joint venture. So we are actually following exactly the path that you outlined which is we are now focused on deleveraging and consolidating our position after having built the platform up, but also using strategic partners to help galvanize or augment the future by using the technology they have in a strategic way.

Salil Sharma:

So when do you think this joint venture would start yielding some kind of a turnover at least if not in terms of net profit, like would we be getting some additional orders based on that?

Namit Malhotra:

See, the stake in the business of Digital Domain we fundamentally had inherited through our merger with Reliance MediaWorks as a minority equity stake in the operating subsidiary. If you see the structure of the deal that we have managed to bring out is, we will hopefully liquidate that position in cash which helps pare down debt and the technology investment they have made where they are counting on us as India's premier brand to help open up the market place for additional orders and additional areas where we can leverage their technology and our relationship base and our operating base in India to drive new opportunities. So yes there will be new orders coming from that and the cost of investing in that technology from our standpoint at this point is zero because that is being brought in by our JV partner.

Salil Sharma:

So when would the work actually start?

Namit Malhotra:

So we are waiting for all the regulatory clearances and going through our initial planning which is why we split the deal into two parts where there is sell down piece which hopefully closes by end of June or 1st Week of July and then hopefully the JV piece happens 60 days after that. So I think somewhere end of August, early September is when we think the JV should be up and running.

Salil Sharma:

And by when would we be able to monetize the share which we have received by selling them in the Hong Kong exchange?

Vikas Rathee:

I think it is going to be a meaningful enough stake, so we obviously have to be careful, the aim is going to be to monetize them as quickly as possible within commercial considerations. So that is all I can say, but I think you should expect the monetization to be done before the end of the calendar year itself.



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- Salil Sharma:** So that would not be direct market sale, it will through some kind of investor outside of the market or will it be via the stock exchange, Hong Kong exchange?
- Vikas Rathee:** So as of now I think frankly it is tough to say, from our perspective we obviously want to make sure that we maximize the price at which we can monetize those shares in the most orderly fashion. So again that is something that remains to be seen, from our perspective it was an asset, an investment which was small and it was illiquid, obviously we kind of converted that into a liquid investment at a fairly good price. So it is non-core to our business and we will look to monetize it in the due course as mentioned earlier.
- Salil Sharma:** And the amount is roughly around Rs.300 crores to Rs.350 crores, is that correct?
- Vikas Rathee:** It is split into two pieces, as Namit mentioned one part is Rs.180 crores - Rs.200 crores or so of share we should get by June - July timeframe and then it will follow by another Rs.120 or so crores thereafter. So again, that is kind of what is going through it, we will use a big chunk of that towards debt retirement just like we have used the proceeds from the sale of the real estate, also there is the cash flows from the operations to be able to use towards debt. And one thing I want to highlight is a good portion of the debt we have is frankly non-cash interest bearing and some which was low-cost overseas debt that was absorbed in relation to the DNeg merger. Since most of our business revenue is overseas we are trying to convert, take advantage of low cost overseas debt to fund those operations, at the same time kind of reduce the high cost debt we have in India.
- Moderator:** Thank you, Mr. Sharma. We have the next follow-on question from the line of Jaineel Jhaveri from J&J Holdings. Please go ahead.
- Jaineel Jhaveri:** First one is, what is the current interest rate that we pay across all the debt that we have taken approximately?
- Vikas Rathee:** See, on an average our domestic cost in India, the interest cost on domestic debt is in the low teens, so the bank debt obviously is around 12% - 13%, we have obviously have some NCD's and LAS which are in the 16% range. Overseas debt is all about 5% - 6% at the maximum.
- Jaineel Jhaveri:** So blended turns out to be approximately?
- Vikas Rathee:** See, blended overall from an interest expense perspective we are closer to about 10% - 11%.
- Jaineel Jhaveri:** And so do we expect this number to come down drastically in the next financial year?
- Vikas Rathee:** That is what we are working towards, what I can tell you is we are continuing to reduce our high cost debt from India market perspective, low cost debt coming in overseas, this is 5% or below 5%. We have taken some charges in relation to when you sell a building the mortgage basically goes along with that, and there is a pre-payment penalty and stuff like that which shows up in our



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finance charges. But I think not only will the gross debt come down over the course of the next 12 months, you should also look at the average interest expense to come down. The expense which I told you also includes a chunk of non-cash interest expense in relation to certain NCDs we have from Standard Chartered, today I think close to Rs.300-odd crores.

Jaineel Jhaveri:

Also, we have a whole lot of goodwill and intangibles, so do you feel the Rs.10 crores amortization per quarter, so about Rs.40 crores - Rs.50 crores in a year, is that a good rate to amortize or are we looking to increase the rate of amortization.

Vikas Rathee:

See, Jaineel I think there are couple of things I would like to mention, we as a creator of tech and IP is it on the PFT side or Double Negative or PFW side, frankly we are creating IP which kind of creates long-term sustainable advantage for the growth of the business. So rather than taking or looking at from an accounting perspective, where every asset should depreciate, frankly we believe we are creating an appreciating asset. So with CLEAR and DAX what we have at PFT, the value of our company and the orders that we get on the back CLEAR as new five year contracts, I mean they are coming on the back of the technology that we have. Yes, we have to obviously depreciate the IP just as we depreciate hard assets but these are things that are creating value for us. Same thing on Double Negative, PFW, where frankly today we have more revenue than we can service in relation to that. So yes, on a hard asset perspective, the depreciation we use and the policies we use are frankly probably more conservative than most of our peers. On the intangible part, some of this is IP and software that has been developed which we are depreciating based on the accounting rules but from a business perspective these are appreciating assets. Part of what also is getting amortized is, as you buy or merge with companies like Double Negative, Gener8 where there are low hard value assets, I mean there are certain policies we have to pursue especially in a more conservative environment. So I think we take a conservative view on that and bunch of the goodwill obviously is going to be looked at from an impairment perspective, we still are in India GAAP, as you know next year companies are moving towards IndAS and as part of IndAS all these things will have to be looked at very-very objectively on a fair value perspective. So I think you will see that probably changes on our side will probably be very minimal while lot of other companies you might see bigger impacts. As a CFO, I am much happier investing in assets which fundamentally appreciate as opposed to investing in assets whether it is hardware or the stuff actually depreciates. So that is my view.

Jaineel Jhaveri:

Just to add to that, the only thing what happens though is that your return ratio like your ROCE and ROE, they are not going to show I guess what this business really should have and what it is showing is there is a difference between the two which is why I asked this question is there no way to improve the ratios, is there no way to look at goodwill and amortization.

Vikas Rathee:

See to look at that Jaineel, I mean again if it really has to come down to that then I think we very objectively take a look at what operations we have, you have seen us taking significant charges in relation to assets and stuff that we closed down in other situations and it is going to be less about



amortizing these things. As we get into IndAS and we get into a more global kind of a perspective, to look at ROCE from that perspective then it might just be you take a charge and you write it off tomorrow completely or in a big manner, that is probably one way to look at it but just depreciating the asset, like we said anything that we have developed from a software and IP perspective, we look at very strong, very conservative rules to be able to depreciate that down. And on a goodwill perspective, it is coming on the back of Double Negative, the value we paid for that, the value we paid for Gener8. If you think about it, those assets have frankly only increased in value as opposed to come down. So your point is well taken, this is something that we continue to discuss at the management team level as well as the board and if that view changes, we will come back to you.

Jaineel Jhaveri:

And one last question, so this might be more for Namit, the float in the Prime Focus stock is very less, even the quantity traded and if you see the shareholding it is mainly the promoters, Reliance and Standard Chartered's private equity holding over 90% now. So what are kind of thoughts regarding, what is the management wants to do? Is there something that you are looking at in terms of demergers or anything like that that you can just let us know over the next one year or two years?

Vikas Rathee:

Jaineel I think we are having trouble with Namit's line. As we have said in the past Jaineel, I am sure Namit will jump back in, there is nothing that we have as of now that we can announce from our perspective. As a company in PFL we have large investments in both PFT and Prime Focus World which obviously are two of the most material operations and subsidiaries we have, between these two companies this +92% of our revenues. And I think there is an opportunity in relation to both these entities, within the Prime Focus umbrella and outside the Prime Focus umbrella going forward. So I think and that is a very hot topic which is topic of discussion not only within the management team but also with the board. As of now, there is only so much we can say but we will look to pursue all value maximization opportunities for the benefit of all our stakeholders including the shareholders at the Prime Focus level.

Moderator:

Thank you, Mr. Jhaveri. We have the next question from the line of Salil Sharma from Kapur Sharma & Company. Please go ahead.

Salil Sharma:

Continuing from where the earlier speaker left, I had just one query regarding the loans. Nearly 90% of our turnover is accruing to us from international operations, so cannot we use foreign sources of capital for loan and replace the high cost domestic debt with the lower cost international and in that sense we could improve the profitability till the time we are able to pay back the loan?

Vikas Rathee:

That is a very good point, I think I mentioned that also already in the call that is an initiative we are working on. We have continued to increase to make that shift frankly and I think we are working very closely on a couple of very important initiatives, so hopefully we will be able to come back to you on the same before we have the next call for the next quarter.



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- Salil Sharma:** And there was, I do not know whether it was substantial thing, but at some stage you are backed by more than that. We had a proposal of placing certain small percentage of Prime Focus World share either coming out with the IPO or stake or maybe give it to a strategic investor, is that also in the pipeline or is it that we are not look at that at the moment?
- Vikas Rathee:** I think I mentioned this earlier as well, I think we are looking at opportunities across both of our primary operating subsidiaries under PFL, looking at opportunities of not just monetization but actually value enhancement and value clarifying opportunities. We believe there is significant opportunity of value that is being missed given the value we have in Prime Focus World, at the same time the value we have in Prime Focus Technologies, it is not reflecting at the parent level. So yes, there is very strong effort on both fronts to be able to clarify that value for the investors.
- Salil Sharma:** And coming to PFT, just wanted to understand, as far as the work is concerned, we have done work for the Viacom platform, we did for Hotstar, so are our revenues somehow linked to how popular those new platform become or is that delinked from that?
- Ramki Sankaranarayanan:** No, our revenue model is not linked to our client's revenue, it is a straight services model that we have.
- Salil Sharma:** And similarly for BARC also, just a one-off thing, like it is not related to the coverage area and all that?
- Ramki Sankaranarayanan:** No sir, it is not linked to what our customers do with our services.
- Moderator:** Thank you, Mr. Sharma. As there are no further questions, I would now like to hand the floor back to the management for closing comments. Over to you, sir.
- Vikas Rathee:** Thank you very much to all of you taking time out. I know it was kind of an odd time at around 3 pm in the afternoon, so really appreciate you all taking the time. Hope you all recognize that the management team here and frankly the entire operating family at Prime Focus is working very hard towards growing and really maximizing the opportunity we have in the global media and entertainment services space. We are delivering on revenue growth, we are delivering on the EBITDA side and I think you will see this only happen more which will allow us to create value for our shareholders and also reduce leverage as a key priority for us going forward. So thank you very much and we look forward to speaking with you at the next earnings call. Thanks.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Prime Focus Limited that concludes this conference. Thanks for joining us. You may now disconnect your lines. Thank you.