



“Prime Focus Limited Q4 and FY15 Earnings Conference Call”

September 21, 2015



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



Prime Focus Limited
September 21, 2015

Moderator:

Ladies and Gentlemen, Good Day, and Welcome to Prime Focus Limited Q4 and FY15 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to 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 Q4 and FY15 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, Mr. Vikas Rathee – Group CFO. We will start the conference call with the opening remarks from the management after which we 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. Good afternoon everyone and a warm welcome. I will start the call with introductory remarks and update on the creative services business following which Ramki will brief you on Prime Focus Technologies and Vikas will take you through all the financial highlights.

I am happy to report that FY15 has seen smooth progress in the integration process post our landmark mergers i.e between Prime Focus Limited and Reliance MediaWorks and Prime Focus World and Double Negative Visual Effects. These two transactions as we have discussed earlier have been absolutely transformational in the development of the entire group and it is helping position us and taking us onto a path of tremendous scale and credibility and growth across the western markets in Hollywood and consolidation of the Indian marketplace.

During the year both our technology and creative businesses delivered multiple successes. In the creative services business with Double Negative now part of the Prime Focus fold we have had a compelling and winning combination in place for the high end global film industry. Not only are we being able to bundle our visual effects and 3D conversion services as we did for movies like Avengers, Terminator, Ant-Man, we are also looking at leveraging competitive advantages of our WorldSourcing model.

As we announced in last quarter we are building substantial capability and infrastructure in India for the visual effects operations for Double Negative. The new studio will be built to the same exacting standards as our global facilities in London, Vancouver, and Singapore. Movies already slated for work in Mumbai include The Huntsman for Universal and Inferno for Ron Howard's latest film on the Dan Brown novel. The results have been already visible with the



Oscar win that we had for Interstellar and our successful work in Avengers which has collected \$1.4 billion worldwide and is the third highest grosser of the year.

This quarter also marks the first quarter post closure of the Prime Focus limited and Reliance MediaWork's film media services merger which unfortunately was delayed due to a number of regulatory approvals taking longer than we originally expected. Our traditional India business continues to be strong and the synergies post-merger are beginning to show. As Bollywood embraces more of visual effects and other high end services we are very well placed to thrive as a significant player in this space. Bollywood projects during the quarter include Bajrangi Bhaijaan, Dil Dhadakne Do, Brothers, Drishyam, Hero, Welcome Back, and Phantom. Ongoing projects include Movies like Katti Batti, Raees, Prem Ratan Dhan Payo, Singh is Bling, Bajirao Mastani, Jagga Jasoos and Mohenjo Daro among others.

In the last three quarters of FY15 we have shown continuous improvement in operational performance and grown robustly. However, there were one time impacts on our bottom-line due to previously announced integration costs and most noticeably due to the divestiture of non-core businesses. As we announced earlier, divestiture of our non-core businesses that is PFL PLC sale is now fully behind us as we embark upon the next phase of our growth for the Group. The DNeg integration is expected to continue through majority of FY16, integration related charges however should more than be offset by progressively improving operating margins.

During the quarter we delivered three of the most awaited Hollywood movies of the year including Mission Impossible - Rogue Nation, Terminator Genisys and Ant-Man. The order book continues to be robust with ongoing projects like Batman v Superman, Hunger Games: Mockingjay – Part 2, Alice Through the Looking Glass and new projects like Spectre - the new James Bond Movie, The Martian, Geostorm among others. Prime Focus has also won the Apollo Awards for Sin City: A Dame to Kill For after winning best visual effects at the 24 FPS Annual International Awards and the International 3D Society Award.

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

Ramki Sankaranarayanan: Thank you Namit and very good afternoon to everyone. Prime Focus Technologies continues on its non-linear growth path and in the fiscal year 15 we have seen our revenue grow over 40% year-on-year. I think the interesting aspect is that our annuity revenues, the mix of annuity revenues continue to be as robust as it has been, at about 69% and slowly we are starting to gain more international revenues and so our share of India revenues to international revenues stands at 67:33 now which means 33% of our revenues are now international, that is interesting to see from where we have been at in the past.



Prime Focus Limited
September 21, 2015

I am very happy to share with you all that our DAX acquisition that we did has been complete, not only has it been complete, after a full year of us operating that unit, 100% of DAX's existing customers have now renewed with us, this is SaaS revenue so renewal is a very important parameter for how we judge the goodness of our business,. Not only have we had 100% renewals in the DAX business, we have also been able to add some of our Prime Focus Technologies virtues of actually building longer term relationships and contracts - few customers that traditionally would buy per year are now actually engaging contractually for two, three, and five years. Again, as another example, we've renewed Lionsgate for five years. More importantly, Lionsgate has also subscribed to our CLEAR platform, which is a significant development as it validates our acquisition rationale of being able to successfully cross sell CLEAR into DAX's customers.

Our technology, the Media ERP product line as a category that Prime Focus Technologies is creating for the first time in the world, I think that is starting to resonate very well and more so in the back of what we call Digital Next reality. I think the marketplace, the cost cutting phenomenon is very acute in the media and entertainment industry across the board and traditional revenues i.e subscription and advertising are obviously declining while the distribution, over the top and digital revenues or digital engagement of consumers is increasing. I think on the back of which there is fairly strong ramifications for the sector, we call them Digital Next realities. Given the fact that the digital world which is driven by the challenges of discovery, challenges of monetization, challenges of delivering good experience and also deliver engagement. I think the landscape of the marketplace is changing and that's where technology comes into play and Media ERP is really sort of solving for many of these Digital Next realities that customers are finally realizing that they cannot operate in silos anymore and they need a connected enterprise. I think that is really where the CLEAR Media ERP really resonates and we have seen a significant interest in it and a move in that direction. Having said that, we are also cognizant of the fact that there continue to be silos within our customer segments and we have redeveloped our "Go To Market" strategy and we are actually launching very specific products to cater to the silos that exist within our customers. We have launched a product called "Secure Screeners" which is again a digital marketing, publishing cloud platform that really helps people screen audio visual material to a larger audiences be it publicists or even in the context of distribution. It is a brand new launch, we have got significant interest in that product and we have got customers already signed up for that and we are already earning SaaS revenues from that product line.

Another significant product that we launched last year was Operations Cloud and this is really catering to the steep increase in digital distribution demands. It is a cloud offering that is interesting and again, we have had tremendous success with this product line. This is where we signed up a significant number of new customers notably HOOQ which is a joint venture between SingTel, Warner Bros and Sony Pictures Entertainment. All of the excitement that we see in Hotstar, again Operations Cloud has been at work. So both these strategies of creating



Prime Focus Limited
September 21, 2015

more modular products is actually also working for us and we will continue to bolster our presence in the marketplace.

Another significant thing that we did in FY15 which we have spoken about earlier is the fact that we will invest in making our sales and marketing infrastructure more robust for Prime Focus Technologies. I am happy to report we are well under way of actually creating a sales and marketing infrastructure, us investing in a very strong sales team internationally and in India. I think that actually is well under way and is opening up new opportunities and helping us penetrate into accounts a little better.

We have had several awards during the year, we won Frost & Sullivan Award, it is a global excellence award given. We are one of the only company in the Media and Entertainment space around the world to win that, we won that for the media workflow on resource management category, we are very-very proud of that. We are also one of the first M&E companies in the world to actually be SOC2 certified, this is again telling customers around the world that we have the right internal controls and governances in place as we operate our customer's content on the cloud. Thirdly, we also won our third patent as a company and I think we are very proud of that, again extending our dominance in the production space, our technology that caters to production in the context of digital dailies and we are happy about that.

Just a last comment, again traditionally as you have seen we have been operating between 28% and 32% EBITDA Margin historically, this quarter we reported a 26% EBITDA Margin. I think there are reasons for it and again this is our time to actually invest back in sales and marketing and make sure that we are able to accelerate growth in the future and this is part of our strategy and how we are executing on it.

That is basically what I have to say as an update about Prime Focus Technologies. Just to say that, our cloud based SaaS technology platforms are doing very well and continue gaining more appeal and on the back of those technology platforms we actually deliver transformation services led by the technology platform, and again we continue to build volume growth on those transformational services as well.

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

Vikas Rathee:

Thanks a lot Ramki and thank you to Namit as well. Good afternoon everybody and thanks for taking the time to join us today. As Ramki and Namit spoke earlier, obviously there is a lot of progress that we made on the integration front and the operating performance is starting to deliver. As you saw over the last 12 months we delivered revenues of over Rs 1,600 crores which is compared to about Rs 900 crores for the 12 months ending June 2014, so almost doubling the scale of our business. At the same time from an operating EBITDA perspective we delivered Rs 265-odd crores with the margin of north of 16%. I think what is more



important is to view our operational improvements on a sequential basis every quarter for the last four quarter of this fiscal year. Despite the fact that we obviously had quite a few transformational transactions happening across the group be it DAX, be it Double Negative or the merger with Reliance MediaWork's film and media services business, we have been able to actually take out cost and continue to grow revenue sequentially every quarter and that is something I would want you guys to take note of. On a quarter-by-quarter perspective every quarter we have delivered enhancement on the operational EBITDA margins.

Obviously, integration of this size and scale requires us to take certain costs upfront in relation to redundancies and integration part of it which obviously comes about Rs 60-odd crores in this fiscal year. Similarly, we have spoken about divestiture of the London Plc business on the non-core side that had a fairly large impact on the consolidated financials of about Rs 180 crores. So I think the exceptional costs are what is causing the dip on the profitability side on the bottom-line perspective. The creative business and the FMS business as you know came in during the course of the year so the year-on-year comparison becomes a little difficult. Ramki already spoke about the technology services business, on the PFT side we achieved revenues of north of Rs 240 crores compared to about Rs 175 crores last year and it is a growth rate of about 40% plus, EBITDA margin about 27%. This is despite the kind of expenses and initiatives we have in terms of globalizing our sales and marketing footprint which obviously the expenses show up now and the expected growth on the revenues with a growing pipeline you will see in the coming quarters.

From a quarterly perspective our revenues on the consolidated basis grew to north of Rs 515 crores, this is I think the first time in our history that we have done more than Rs 500 crores in a quarter, it is about 23% up from already good quarter that we had in March of close to Rs 420-odd crores of top-line. Again, the growth is being driven by both the creative business that is primarily Prime Focus World and obviously on the PFT side we have been involved in lot of marquee projects as both Ramki and Namit mentioned. The operational EBITDA for this quarter is about Rs 110-odd crores with a margin of north of 20%, of about 21%. As I have said in the past for FY16 we are targeting the EBITDA margins in the range of 20%- 22%, so I think this is on track in terms of what we have been talking about. Again, a lot of the exceptional costs and onetime items are all primarily hitting in Q4. To give you a sense of this as you know we merged with Double Negative in July of last year, they are a UK GAAP company that had to be transitioned from UK GAAP to IFRS, a lot of the stuff obviously happened as part of the audit and a bunch of that stuff is basically hitting us at the end of the year. So that is why the quarter which was otherwise operationally pretty strong has been hit with these costs and items and there is an impact of that.

Just on a segmental basis as I said, the creative services the revenue is close to Rs 400 crores, technology PFT business the revenue is in the range of Rs 70-odd crores and the domestic film and media services business has delivered revenues of about Rs 36 crores. The EBITDA margins across these three business units is 19-odd% on the creative side, 26% for the quarter



Prime Focus Limited
September 21, 2015

on the technology services side and the domestic India business, even though it is a smaller piece of our entire consolidated financials it has delivered again healthy margins of about 44% for the quarter. On the debt side, the debt is a little north of Rs 1000 crores, about Rs 1040-odd crores which has gone up from Rs 984 crores. You can understand part of our debt is in foreign currency so there is obviously an impact from a rupee perspective of the depreciation of the rupee. So on a rupee side it looks higher, there has been consistent pay on of our debt during the quarter while there is also increase in terms of short-term working capital facilities on the international side and NCDs raised at the PFL level.

I know there is a lot to chew on, we have a slide presentation that we have put on our website and sent to investors, I would encourage you all to have a look at that. Additionally before I open the floor for questions you all might have seen from an industry perspective consolidation in the business continues, Technicolor which is large French company in this space just last week announced the acquisition of a company called The Mill out of London. To give you a sense that they have paid about €260 million for the company and that is about close to 2.0 times historical revenues and close to 9.5 to 10 times historical EBITDA. So again, I think consolidation is a trend, and we have been ahead of the trend and we have been able to get some benefits wherein I think the transactions we have done frankly are more accretive, we have done it at reasonable valuations and we are ahead of the curve from an integration and scaling perspective, so I think we will see our competitive advantage kind of increase. But just to give you a sense there is obviously consolidation in the industry, and since we are ahead of the pack I think that is going to help us in delivering the services and the value to frankly both our customers and our shareholders going forward.

With that I am happy to turn it back to the operator to open for questions please.

Moderator:

Sure, thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answers session. We have the first question from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.

Jaineel Jhaveri:

One of the questions that I had was on the company level, so first of all, do we expect this kind of a run rate of Rs 500 crores per quarter and what is the growth that you all expect on top of this for the next year?

Namit Malhotra:

I think it is fair to say that there is certainly a stabilization in our run rate based on what the current trends look like and frankly outside a quarter here or there generally the trend in our business overall is pointing towards a stable and a clear path of growth at this point. As we continue to see greater traction on both sides of the world and that is frankly on the creative services side and as Ramki explained the technology side we continue to see a greater traction developing in our international business as we do in our domestic business. So to your question, yes we believe that there is going to be much more stabilization on the revenue and growth from here on because of the transactions that have happened in the last 12 months.



- Jaineel Jhaveri:** So Rs 500 crores per quarter is something that we can expect?
- Namit Malhotra:** No specific guidance, but I think, like I said we are trending in the favorable direction of what the numbers should play out on.
- Jaineel Jhaveri:** And are there any more acquisitions, I think you all talked a little bit about consolidation in the industry, but for Prime Focus in general are we looking for any more acquisitions or at this point of time we are not looking for anything new, we are just trying to digest whatever we have already done?
- Namit Malhotra:** I think it is fair to say for us acquisitions have always been undertaken only at a very specific juncture. Before round of the development that we had in last year where we had almost three different transactions play out in the same calendar year itself in 2014, the time when we had any transaction before that was 2007 and 2008 where we were looking to make a foray into the western world and now frankly we are seeing sort of that strategy play out. So I do not think there is anything specifically that we are targeting from an acquisition standpoint, because we find ourselves in a good place overall in the way the business has now developed and our brand and our profile in these markets is now getting much better visibility with the key decision makers.
- Jaineel Jhaveri:** Also, do we see any more onetime charges now? So something that is still in the next few quarters do we expect to see any more negative one time charges?
- Vikas Rathee:** Let me just try and address that, I think one thing I wanted to clarify is on the London Plc charge, this has come on the consolidated part of the financials now while we had already last fiscal year taken this charge on the standalone financials. Because this transaction required certain approvals from regulators and once the PLC was divested and approvals received, that is why you are seeing it on the consolidated financials right now. In terms of integration charges and stuff, I think what I can say is majority of the charges are behind us. As we integrate further over the course of the next few quarters as Namit highlighted earlier, there might be some charges but they will be much smaller. If you ask me most of the charges in relation to Double Negative and PFW merger kind of happened in the earlier part of the fiscal year already, the charge we have in Q4 is a small number. So I think there will be some exceptionals in relation to integration, but we do not expect to kind of see the scale that you have seen.
- Moderator:** Thank you. Our next question is from the line of Shashank Gupta from Star Capital. Please go ahead.
- Shashank Gupta:** My question is regarding order book in PFT and PFW, so can you share some light regarding the order book in both the segment?



Vikas Rathee:

Let me just try and address that. One, I think you need to understand that order book in relation to the creative business which is primarily PFW as compared to PFT are of different lengths. Frankly from the 3D and VFX part of the business typically order book is a rolling 12-month figures that reflects the project based nature of the business. We work on tent-pole movies such as Terminator, Batman v Superman, etc. I think these are all project based stuff. On the other hand PFT has annuity based contracts which run for as long as five years, so I think there is a difference in relation to how do you view the order book in each side. We have never kind of given precise figures in relation to order books because things do change and usually for the better, but to give you sense on the creative side of the business order book continues to be north of \$170-odd million and again some of that is for the course of the current fiscal year, some spills over into the next fiscal year. On the technology side of the business which is Prime Focus Technologies, like I said it is a longer duration order book and there also we are in the range of \$190 to \$200 million bucks as we stand as of now. And I think you should look at it from that perspective and average life of about 3-3.5 years.

Shashank Gupta:

Can you share what percentage of the total order book will fall in this fiscal year, like in 2015 ending and 2016 you said life cycle spans till three years, so any composition that you can share for this particular coming fiscal year?

Vikas Rathee:

Yes, like I said we have never really given that kind of guidance, all I can tell you is on the technology business as we enter any particular fiscal year 70%+ odd of revenues basically we already have in our order book. Similarly in the case of our creative business that number is also similar. Again, the sales are obviously different because as I said most of the order book on the creative business gets fulfilled over the next 12 to 18 months from the time that you look at it, while on the technology side of the business it is a longer term period. But as we enter into any particular year a significant chunk of our revenues we know where they are going to come from and they are backed by order books.

Moderator:

Thank you. We have follow-up question from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.

Jaineel Jhaveri:

So what is the kind of utilization levels that we have for our employees in PFW side of the business?

Vikas Rathee:

That is a very good question and I think it is a moving figure, what I can tell you is during the course of the current year that we have been working through, our work force across VFX and 3D has been massively stretched. So if you ask me I would hate to give you a number above 100% but people actually have been working their guts out to kind of deliver on the projects. We obviously have a significant number of projects that we are delivering on a parallel basis. On the back of initially scaling down our operations in the past due to the combination with Double Negative we have kind of reallocated people, move things around but our utilization levels on the creative side of the business are in the high 90s if not higher. This is the current



Prime Focus Limited
September 21, 2015

state of things, obviously there is certain seasonality in the business, if we can continue at those kind of utilization levels I think that would be ideal, but there is some seasonal variations and we try and size our business accordingly.

Jaineel Jhaveri:

So the whole team at Double Negative and Prime Focus World, visual effect and 2D, 3D everyone combined can we expect that if it is functioning means in season or when it is seasonal you will have about Rs 400 crores per quarter, is that something that is doable every time?

Vikas Rathee:

Namit will obviously jump into this, from our perspective the work is in relation to the workload we have at any particular point in time and how we size the businesses. You will also understand as we ramp up on the employee work force side there is also what we have is integration and training and all that stuff that happens. So training & development, and all those people you cannot have people join and become absolutely productive in two days, so that is always going to be on that perspective. It is a project based business I think which is very important for us to kind of manage the utilization levels, so obviously we try and front run as much as possible in terms of making sure that there are more than enough projects available. We believe there is some kind of variability as in we have employees who are actually on payroll and others who are on contract basis and we try and use that mix and try to optimize such that we have people who are gainfully employed as opposed to being a drag.

Namit Malhotra:

I think it is also fair to give you some more perspective, see currently because of the pace at which things have changed we are actually not just consolidating some of our historic infrastructure as you have seen last year Prime Focus World's operations in Canada and UK were significantly reduced to make way for a single brand and a single message to our clients. However on the other side we are actually building a fair amount of capacity in Canada and India as we go forward. So to your point in what we call is our summer period when we are delivering the big Hollywood movies between January to June you will see the utilizations and revenues that can be significantly higher simply because that tends to be the busiest time for us because that is when all the big movies are slated to come out. Then we see the holidays in the September and December quarter where the numbers tend to go down a bit and that is in-line with our hiring and our capacity build up as we project our numbers. So you will see the number you are talking about will be consistent in those quarters and then there will be bit of a reallocation for the next two quarters based on what comes in store from a relief slate standpoint from the studios. Currently the trend is pretty positive so I think we feel optimistic about that but generally historically just to make sure that you get the trend July-August tend to be slower months only because it is the holiday season in the west and December is obviously holiday season worldwide. So that is when there will be a slightly lower throughput from a revenue standpoint but you catch up the rest between January to June, that is typically how the creative services business plays out.



Jaineel Jhaveri:

What kind of CAPEX do you see for the next year, so how much do you think you would be needing in terms of CAPEX for your facilities to get them up and running for the new ones?

Vikas Rathee:

I think fiscal 16 we are obviously going all out in building our Canadian facility, so that is already in progress. I think India is slowly trailing on the back of that, as soon as we finish the build out of Canada which should be done in the next month or so, we should be ready to start building out India. And that is going to be incremental, frankly a lot of it is dependent on how much more ways and how quickly we scale up India because we tend to build up capacity in terms of seats and the scale of our facility also based on how much more business we are winning incremental to what we have projected. So that can skew the numbers a bit but that will be a positive wherein at all times in our business because if we build, if we do a lot of work and if it is India based it will obviously show upon much healthier margins in our business. So the most I think our CAPEX has been pretty much been completed in FY15 with some incremental CAPEX which I think will be mainly in India depending on how big that scales up.

Jaineel Jhaveri:

But how much in terms of numbers do you expect, so what I am trying to get a fix on is like is the debt going to increase further from here on?

Vikas Rathee:

Yes, so let me address that. I think if you see we have actually increased our scale fairly dramatically over the last 12 months in terms of transactions happening, obviously there is money that is being paid towards integration as you would see debt has not gone up commensurate to the assets we now have, so I think we are very-very focused on the debt reduction side. When you talk about FY16 from a CAPEX perspective, next year we are going to be in March Fiscal some of the CAPEX in relation to Canada especially which is the large number for us is already being spent through June and we will see some of that coming in September quarter. So I think from an overall facility build out there will be a few million dollar coming on the India side on the back of more business coming in. The only other source of CAPEX we have is on the technology part of the business which is very-very success oriented, it is basically we have finished the build out of our facilities on the technology side of the business be it Mumbai, Bangalore, the SEZ that we put up and the other facilities. So in terms of capacity on facility side it is fundamentally behind us, there is going to be like I said this Canadian facility should get done over the next, I think it was to launch by the end of October so all of that is kind of already behind us. To give you a specific number I think as of now it is a little difficult, I do not want to guide too much into it but I think our aim is to make sure that number stays south of Rs 100 crores odd if not lower. Like I said, some of that already had been spent through June quarter.

Jaineel Jhaveri:

And is there any assets that we feel which we are not going to need anymore which are on the block and we expect any kind of maybe through the consolidation of all these businesses you have some buildings that you all do not need or facilities that you all are not using, in the same location you have another facility, anything that is on the block?



- Vikas Rathee:** See we are optimizing it, if you ask me, there are certain facilities we have back in the west which frankly maybe in excess of what we need right now, so we will look at those options to get the best out of them. On the domestic side facilities we all have now, we obviously have inherited facilities as part of the Reliance transaction as well which frankly allows us to only incrementally work on them from a seat addition perspective as opposed to fix infrastructure. So we are always looking to optimize our facilities, so we will look at that and monetize and optimize that going forward, I cannot speak more than that at this point in time.
- Moderator:** Thank you. We have the next question from the line of Salil Sharma from Kapur Sharma and Company. Please go ahead.
- Salil Sharma:** This is regarding what we understand is certain employees in UK and Vancouver, how they kind of superfluous after the DNeg merger, so I would like to carry on with the earlier question that what would be the VRS or any other expenditure which would come in the coming quarter relating to this merger? After the merger are you still intending to lay off people for whom there will be certain extraordinary items coming in the current quarter or following quarter.
- Vikas Rathee:** See if you ask me in terms of where the lion's share of the restructuring and redundancy cost that came in, I think on the Vancouver and the UK side. As Namit mentioned we took those decisions early on during the fiscal year, so that happened way early on I think six, nine months ago. As we look to optimize our facility usage and take the benefit of the lower cost. I think it is the cost and capability decisions kind of discussion that happens within the management team. So like I said as we continue to enhance our capacity in Vancouver and in India, again the aim of this is not all going to be incremental people, there will be certain movements from other higher cost jurisdictions and as part of that there might be some amount of redundancy that might come around with that. But again we are obviously making sure that we can continue to use the people we have and have something mobile across different jurisdiction. But again, there is probably still going to be some like I said integration related expense that happens, it will be marginal, I do not think you will see the current numbers we have put out, but it remains to be seen.
- Salil Sharma:** Can you put a number to that, I mean roughly?
- Vikas Rathee:** It is tough right now actually Salil, frankly if you ask me like I said our aim always is to try and maximize on the opportunity and we have to look at it from a cost of capital perspective, spending too much money upfront and there is obviously a cost to that versus being able to move people across different jurisdictions and having smaller cost in relation to that. It might work out to be a better strategy as opposed to letting people go in one jurisdiction and hiring on the other side, so that is a constant kind of discussion and debate that you have not only as a management team but also with the employees. So those kind of discussions continue.



Prime Focus Limited
September 21, 2015

- Salil Sharma:** And one more thing, about the depreciation in this particular quarter, the last quarter ended 30th June, 2015, I believe there is an extraordinary item there which is quite high relative to the earlier quarter.
- Vikas Rathee:** That is correct, I think we have mentioned that it is primarily on account of the merger that happened with DNeg, they were a UK GAAP company, they had to be converted into IFRS and that kind of happened. The non-recurring portion of that depreciation is about Rs 26 crores, that you should not see, that is additional that has come on in this quarter that you would not see going forward.
- Salil Sharma:** So for the current quarter that is September ending we can expect depreciation of close to around Rs 25 crores or less than that?
- Vikas Rathee:** It should be in that range, a little bit up or down.
- Vikas Rathee:** Sorry, before you go on, see Rs 26 crores is what I have said was the non-recurring portion of that in terms of what it is, so if you take away the non-recurring portion I think you will see a depreciation which will be in the Rs 50-odd crores range on a quarterly perspective.
- Salil Sharma:** And what have been the intangible assets of the balance sheet to the tune of around Rs 528 crores if I have that number correct?
- Vikas Rathee:** I think if you see our business, Salil frankly we are in the business of most of our assets are high in technology, IP, and services perspective. So we do not have significant fixed assets that are coming as part of these transaction, except in the case of RMW FMS business we took on in India which obviously had a large portion of infrastructure related assets that we took on to help grow the India portion of the backend as you might call it on the offering perspective from the UK, Vancouver otherwise. And because these transactions are primarily on the back of acquisition of customers, IT, technology, intangibles are usually a bigger part of these transactions. So we have provided a balance sheet in there, I think it is in that range, intangibles I think if I am not mistaken are in the range of about as on the balance sheet between, goodwill and intangible is about Rs 1,300 plus crores.
- Salil Sharma:** So that intangibles are part of that Rs 1.300 plus crores?
- Vikas Rathee:** Yes.
- Salil Sharma:** And even though our tax provision for this current quarter is around Rs 46 crores, so again this is something extraordinary?
- Vikas Rathee:** Sorry, say it again.
- Salil Sharma:** The tax provision for the quarter ended June.



- Vikas Rathee:** So what we see is, that our tax provision obviously is disproportionately higher this qtr. We had ability to increase our deferred tax assets being more conservative on the Companies Act perspective we are not looking to add to our deferred tax assets. Taking this impact at the end of the FY for the entire year is why the tax charge that you see looks inordinately high compared to what we have seen in the previous quarters.
- Salil Sharma:** So in the coming quarters it is going to be in this vicinity?
- Vikas Rathee:** No, I think t deferred tax asset fundamentally comes around the fact that there is ability for you on a depreciation or losses perspective to get a benefit and add to your deferred tax asset which can offset potential taxable income going forward, that will be available from a tax calculation perspective, but from an accounting side we are not taking the additional benefit of that this year and which is why you see this impact. Obviously, again a lot of this is also in relation to the losses we had one time or otherwise which kind of makes this number look higher, and because we are not taking the benefit of the deferred tax asset it looks inordinately high. Going forward, I think you should see this number be smaller and as we produce tax profits or profit before tax kind of utilizing our deferred tax status that we have to not being a cash tax paying company for some time.
- Salil Sharma:** And one last thing is what I have made to understand is that the LA building is up for sale, like you earlier also talked about in terms of generating revenues to pay back the debt, so are we anywhere close to getting rid of that?
- Vikas Rathee:** See as we mentioned earlier I think we obviously look at the assets we have from an operational and asset perspective and see what the best use might be, lot of our business not only for us but I think also for the rest of the industry has moved away from US, it is into Canada, UK, India for that matter, I think we have actually led that change. You are right, we do actually own a very attractively valued building in LA, and we are evaluating all opportunities in relation to getting the fair value of that. So I think that is all I can say as of now in terms of leasing it or monetizing it some other way obviously any excess assets we have and if we monetize that we will use towards enhancing the operating cash and ultimately towards debt reduction.
- Salil Sharma:** Can we expect that in the next one or two quarters or it will take longer than that?
- Vikas Rathee:** I think what I will again say is as soon as we have more to talk about that and someday we can talk publicly we will obviously come back.
- Moderator:** Thank you. We have the next question from the line of Chintan Seth from SKS Capital & Research. Please go ahead.
- Chintan Seth:** Yes, this is Chintan from SKS Capital. Just wanted to check on the order book number you just mentioned about, can you just repeat it again.



Vikas Rathee:

What I had mentioned was on the creative services side, it is in the range of about \$170 million, \$175 million and on the technology side the number is closer to \$190 million if not slightly more. Again, these are dollar numbers and depending on where the dollar is the rupee number could be up or down.

Chintan Seth:

And coming back to your EBITDA number, from the trend on the presentation our September quarter to March quarter for the creative services business has been improving from 4% to 24% consecutively and then we had a dip coming back to 19% in the current quarter. How are we seeing this margin trend going forward whether we will continue to report 20% odd on a cumulative basis or consolidated basis margin or we will have some volatility depending on the projects coming in and the order books completion?

Vikas Rathee:

See what I can tell you, as I said earlier there are certain onetime items that are coming through from a change from UK GAAP to IFRS and some of them are obviously coming all through in this qtr at the end of the FY, there are others which kind of just impact the presentation of the financials, if you start getting into too much detail I think becomes way too complicated. What I can tell you is from an operating perspective actually the June quarter from a creative services business was better than the March quarter. But what we have said in the past when we came up with 24%, 25% margin last quarter is that we are comfortable to continue with our expectation and we will deliver overall consolidated EBITDA margin in the 20% to 22% range for FY16. And again, there will be variability across quarters, but I think we are trying obviously sizing our business according to the projects and the timing of such projects. So I think we have progressed well till date and hopefully we can do well in seasonally weaker qtrs. as well. There usually is some variability quarter-on-quarter, but on overall perspective for FY16 if I take a 12 month kind of look at that point in time March 16 we are confident we will be in the 20% + EBITDA range.

Chintan Seth:

And you did mention about your revenue, the quarterly run rate to stabilize going forward. For the current quarter we posted around Rs 500-odd crores of revenue on consolidated basis barring the quarterly seasonality which you have been mentioning again, how are we projecting our revenue profile for next two to three years, what are our targets in terms of where we want to be say in next two to three years' time in terms of revenue?

Vikas Rathee:

That is a very good question, obviously we are trying to lead transformation on the industry side, and we believe we are trying to create a value proposition which is unmatched by others. I think that by being able to enhance our capacity in Vancouver and also in terms of execution capacity in India, we will be able to dramatically increase revenue. If you ask we have an adequate pipeline of projects, and that there are projects that we have not been able to take on because of capacity constraints. I think as we have built in and executed the capacity expansion perspective I think we will be in a position to take in significantly higher amount of revenues in both of our businesses. Obviously the technology part of the business has grown as you know for years at 100% odd range year-on-year, even this year we are also the north of 40%,



we want to be able to expand that growth rate as well. So I think our core businesses are growing and I think it is now left to us to be able to expand the capacity. But I believe in three years the revenue numbers could be significantly higher than what you have right now.

Chintan Seth: Any number or just ballpark range percentages wise how are our CAGR growth profile will be like if you can provide?

Vikas Rathee: Chintan, we have not really, frankly in the past even given one year forward guidance.

Chintan Seth: Yes, but in terms of your management, internal target where you want the company to be in terms of top-line, you obviously have been speaking about and investing in your capacities that you were mentioning about. So you had some expectation in terms of how the company will grow or how the revenue profile will improve or would look like in terms of revenue going forward in the next two to three years, or if you want to give a broader picture about it, like you mentioned that a significantly higher but if you can give some number or some color on it.

Vikas Rathee: Yes, I think you are absolutely right, you said one must have internal expectation, aspirations and believe we do and I think those internal expectations on one hand are very realistic, on the other hand they are internal and if I make them external we will start getting measured by that yard stick. I think at this point in time when we have gone through a fairly transformational kind of last 12 months and as we continue to embark on this integration story believe me there is still work to be done on that side. I think hopefully when we finish FY16 we will be in a much better position to give you a better guidance, there is a lot of moving pieces this year, like I said we absolutely expect the numbers to be much higher.

Chintan Seth: Lastly on debt side, what is your target in terms of where you want to be in terms of reducing your leverage and improving on your balance sheet side?

Vikas Rathee: That is a good question, I think we have mentioned that in the past, our aim is that actually by the end of fiscal 2016, we want to be at a lower debt number than where we are, like I said there are initiatives that are under way. FY16 is still our integration year, does that happen in the next nine months or it will take another next nine months after that but I think we are very-very focused on making sure the operational cash flows that we generate through the integration efforts are used towards that. We actually have reduced a significant amount of higher cost interest bearing debt. So I think our aim is to use opportunities from operating cash flow generation towards debt, we obviously have two very-very valuable subsidiaries and again there is a lot of opportunity there. Both Prime Focus World and Prime Focus Technologies are independently extremely attractive and I think both have opportunities on their own level for capital enhancement from debt which is at lower cost or other opportunities. So PFL perspective I think over the next 12-18 months we have to look at bunch of different options to try and reduce overall debt or reduce the overall cost of debt across the board.



- Chintan Seth:** And in terms of any chances of raising funds or equity to reduce debt or we are comfortable with our capital structure right now? You will be using your cash flows to repay debt but on the CAPEX front you will likely need some funds from the outside sourcing, so are you going to raise equity to not burden your balance sheet.
- Vikas Rathee:** I think what I can say is we believe, our main businesses today are at a position where they are able to kind of chart their own growth path. I think the growth path on each of these subsidiaries could be slightly different and we continue to evaluate all kind of opportunities in relation to these entities is it debt, is it equity or a combination thereof. So I think we have to keep our eyes and ears open, I think on one hand we have to be absolutely focused on the business and generating the value out of the business, that is one thing we can control. I think what we cannot control is how the external capital market is going to behave, but at the same time we should be able to be ready to opportunistically approach and tap options as they come across. Is it lower cost debt, is it some other forms of capital, I think we have to keep our eyes and ears open, we owe that to our stakeholders. So I think from that perspective we will keep our eyes and ears open.
- Moderator:** Thank you. Our next question is from the line of Salil Sharma from Kapur Sharma and Company.
- Salil Sharma:** One point I wanted to ask you is regarding the debt again, I believe to the extent of \$75 million it is dollar denominated debt, so to what extent are we naturally hedged against our dollar sales?
- Vikas Rathee:** Salil actually to give you sense, if you look more than 75% of our revenues are denominated in dollars or pounds. So frankly if you ask me today our foreign exchange denominated debt is frankly lower than what our overall business generation perspective is.
- Salil Sharma:** So in terms of if there is any depreciation of rupee do you feel that the debt would go up to that extent or we would have these mark to market losses coming in the quarters?
- Vikas Rathee:** No, not really, see at the end of the day I do not have dollar denominated debt on Indian denominated business frankly, so when you talk about foreign currency based debt it is supported fully and totally by cash flows and operations which are overseas. Some of FX charges that you see in our financials frankly a big chunk of that is non-cash in nature. So I think a rupee depreciation to give you a sense actually helps us because with the large amount of workforce we have in India and work getting done out of here that becomes more competitive.
- Salil Sharma:** So that foreign exchange element which we had in this quarter out of that I believe Rs 25 crores is that non-cash which you just spoke about, Rs 11 crores relates to the debt part?



- Vikas Rathee:** Actually if you ask me, from a rupee perspective we actually had a benefit, primarily the effects you see is in relation to non-cash kind of intercompany transactions /loans within the Prime Focus World entities which frankly do not hit us, but in Indian GAAP regardless we have to take that into account. Secondly it is in relation to some of the translations which happened on the Double Negative revenue recognition under IFRS versus the UK GAAP. So I can tell you almost all of what you see is non-cash, does not really hit our businesses. I highlighted Rs 25 crores because that Rs 24-odd crores that is primarily in relation to intercompany balances within the Prime Focus World.
- Salil Sharma:** And one last thing, as far as the Prime Focus Technologies revenues are concerned, I believe that quarter-on-quarter we have seen a kind of a de-growth, so is the sales or traction there is over, are we into that kind of a flat revenue just for Prime Focus Technologies.
- Vikas Rathee:** Actually it is a very small dip, what I can tell you is unlike us at PFL which at a June fiscal most of the customers and everything for Prime Focus Technologies especially from India perspective do have a March fiscal. March for PFT has always been the strongest quarter and continues to be, so it is not unusual to see a slight amount of difference there, frankly I think we are on a higher growth trajectory than we were 12 months ago same quarter. So I would urge you not to read too much into that the slight change vs the previous quarter.
- Moderator:** Thank you. Our next question is from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.
- Jaineel Jhaveri:** I just had one last question, I think you were hinting towards maybe demerging the two businesses as being one of the option, so is that something that is on the radar in terms of having Prime Focus Technologies since it has its own growth path being separate from Prime Focus Limited or World?
- Vikas Rathee:** No, I think you are reading too much into that - that is not what I meant. All I am saying is each of these businesses are now at a size and scale that they actually are not dependent on the parent listed company anymore. I think what I meant that each of these businesses we are looking to manage absolutely independently and I think that is kind of what you see and each of these businesses are capable of both supporting any kind of debt or equity capital at their own levels, that is all I meant.
- Jaineel Jhaveri:** So then I guess what I was thinking is that as a shareholder doesn't it not make sense to have Prime Focus Technologies being separately listed because it would unlock more value?
- Vikas Rathee:** Jaineel we will look at all opportunities, so like I said we have to consider everything and again there is no near-term plan or the demerger at least if that what you are talking about. We have to monetize and when I say that we have to optimize the value creation on each of the companies. And I think how that gets optimized I think we will have to evaluate and we continuously evaluate that as a management team.



Prime Focus Limited
September 21, 2015

- Jaineel Jhaveri:** No, just one suggestion from my side is that whatever I have seen for companies who have a holding company kind of a structure the value never gets completely unlocked for other shareholders. So I mean that is just something that comes from the top of my mind is that if you all were thinking of listing Prime Focus Technologies separate for the ease for everyone and for unlocking the maximum value. I do not know like demerger seems the best, just something similar to what Majesco did, Mastek and Majesco were one company and then they split and then they listed Majesco also, I feel like that route. I guess that is a suggestion to you guys is that route seemed very good for everybody.
- Vikas Rathee:** Jaineel thank you very much, we do appreciate what you are saying
- Jaineel Jhaveri:** Yes, I understand. And one more thing was that what was your other operating income of Rs 33 crores this quarter?
- Vikas Rathee:** It is nothing new, I think we have this every quarter basically one is revenues and other operating income which primarily just to give you a sense is composed of tax credits and other stuff that we get from different governments as part of our creative services business be it Vancouver, Singapore or UK.
- Moderator:** Thank you. Ladies and Gentlemen, with this I now hand the conference call back to the management for their closing comments. Over to you sir.
- Namit Malhotra:** So thank you everyone for the questions and as we have walked you through the overall business and the dynamics of where we are at I think we continue to be extremely confident. We appreciate all the support and value for all our shareholders and the overall business community and our clients because we continue to forge ahead and build on this great path that we have managed to get ourselves on. We look forward to having more such discussions in the future, so thank you very much.
- Moderator:** Thank you very much sir. Ladies and Gentlemen, on behalf of Prime Focus Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.