

Date: August 22, 2016

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001
Fax: 022 – 2272 3121
BSE Scrip Code: 539141

To,
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051
Fax: 022 – 2659 8237 / 38
NSE Scrip Code: UFO

Dear Sir / Ma'am,

Sub: Transcript for the Earnings Conference Call held on August 3, 2016

Attached herewith Transcript for the Earnings Conference Call held on August 3, 2016.

Kindly take the same on your records.

Thanking you.

Yours truly,

For UFO Moviez India Limited

S. S. Chavan

Sameer Chavan
Company Secretary

Encl: a/a



UFO Moviez India Limited
Q1FY17 Earnings Conference Call

August 03, 2016



MANAGEMENT:

SANJAY GAIKWAD - FOUNDER & MANAGING DIRECTOR, UFO MOVIEZ INDIA LTD

KAPIL AGARWAL - JOINT MANAGING DIRECTOR, UFO MOVIEZ INDIA LTD

ASHISH MALUSHTE - CHIEF FINANCIAL OFFICER, UFO MOVIEZ INDIA LTD

ANALYST:

ANKUR PERIWAL - RESEARCH ANALYST, AXIS CAPITAL LTD



Moderator: Ladies and Gentlemen, Good Day, and Welcome to the UFO Moviez Q1FY17 Earnings Conference Call hosted by Axis Capital Limited. As a remainder, 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. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankur Periwal. Thank you and over to you, sir.

Ankur Periwal: Thank you, at the outset, I would like to thank all of you for dialing into UFO Moviez Q1FY17 Earnings Call. The call will be initiated with a brief management discussion on the quarterly performance followed by an interactive Q&A session.

The management team will be presented by Mr. Sanjay Gaikwad – Founder & Managing Director; Mr. Kapil Agarwal - Joint Managing Director; and Mr. Ashish Malushte - Chief Financial Officer. Over to you, Mr. Gaikwad.

Sanjay Gaikwad: Thank you Ankur. Good day and thank you all for joining us as we report financial results for the first quarter of fiscal 2017. I'll begin with a brief overview of our performance after which we will open the floor for questions.

In Q1FY17 our consolidated revenue grew 3.2% YoY to Rs. 1,346 million. EBITDA declined by 10.3% to Rs. 364 million representing 27% margin. PBT stood at Rs. 152 million and PAT stood at Rs. 98 million.

Our consolidated financial performance factors in the planned losses from VDSPL's Caravan Talkies which has negatively impacted our profitability in this quarter. These planned losses were present in Q1FY16 as well, however they were significantly lower as Caravan Talkies was at a very nascent stage that time. Caravan Talkies has accounted for Rs. 27 million of incremental EBITDA losses out of the overall EBITDA reduction of Rs. 42 million in Q1FY17 over Q1FY16 at a consolidated level.

EBIDTA from existing businesses also shows a slight reduction of Rs 15 million over Q1FY16 primarily on account of increase in Other Expenses. I wish to highlight here that UFO has completed its FY17 CSR expenditure and has spent Rs 15 million in the current Quarter itself and as a result on a YoY basis the Other Expenses have gone up to this extent and correspondingly the EBIDTA on YoY basis is impacted negatively by Rs 15 million.

As explained in the previous calls, we have now started implementing the technology solution to improve the advertisement playouts in the D Cinema screens and along with that certain planned limited period one time operating expenses are being incurred in the current year. In the current quarter expenses to the tune approx. Rs. 10 million have been incurred on this account. These one-time expenditures are primarily in the form of payments made for temporary outsourced technical field support to facilitate the technology deployment and



monitoring of the advertisement playout at such screens where ads were manually scheduled and played so far. These initiatives have started showing positive results and the advertisement playout at such key D Cinema screens is now showing a marked improvement. We will be incurring these expenses only for a few more quarters. The EBIDTA for Q1FY17 is therefore negatively affected by Rs 10 million on account of these one-time expenses.

Operationally, the number of E Cinema screens has moved from 3,504 in Q1FY16 to 3,509 in Q1FY17.

Advertisement revenues including Caravan Talkies grew 9.5% to Rs. 397 million compared to 363 million in Q1FY16. In-cinema advertising revenues grew by 10.1% YoY despite a high base last year. Last year's base was high as Corporate advertisement revenues spilled over from Q4FY15 to Q1FY16 due to the ICC World Cup. The Corporate segment contributed 45% in Q1FY17 compared to 58% in Q1FY16. Government advertisements grew by 45.6% YoY driven by increased spent by both the Central and State Governments. Advertisement minutes sold per screen per show during the quarter stood at 3.97 minutes compared to 3.81 minutes in Q1FY16.

Advertisement revenue growth is expected accelerate driven by increased acceptance of this medium and a healthy pipeline of movies during the current fiscal. As a result, we are confident of achieving our annual guidance of 30% YoY advertisement revenue growth.

We are pleased to inform you that UFO has become a Net Cash Company. As on June 30, 2016, Net Cash stood at Rs. 314 million compared to a Net Debt of Rs. 24 million as on March 31, 2016. The Company's DSOs have also improved significantly to 75 days from 97 days as on March 31, 2016.

Finally, last week we announced the merger between UFO and its wholly owned subsidiaries. Let me walk you through some details. As announced, the Board of Directors of the Company has approved the scheme of merger of Southern Digital Screens Pvt. Ltd., VN Films Pvt. Ltd., Edridge Ltd. and UFO International Ltd. with UFO Movies India Ltd. We expect this merger to drive significant business synergies, improve operating efficiencies and achieve cost savings. This strategic merger will address issues like multiplicity of legal and regulators compliances and also reduce managerial overlaps, which are necessary in the current scenario. This announcement represents our commitments towards achieving our strategic objectives.

With that, I open the floor to take your questions.

Moderator: The first question is from the line of Kashyap Jhaveri from Capital 72 Advisors.

Kashyap Jhaveri: As highlighted in the opening remarks, what is the expense of ₹1 crore this quarter?

Sanjay Gaikwad: Expense of ₹1 crore was towards temporary outsourced technical field support to facilitate the technology deployment at our D-Cinema advertisement screens.



- Kashyap Jhaveri:** Would this continue for say at least two quarters?
- Sanjay Gaikwad:** Yes, because our E-Cinema servers have our own technology whereas D-Cinema servers use standard technology that does not give us the flexibility of guaranteed advertisement playback like we have in E-Cinema. Since most of the D-Cinema operators are not in our control, there was lot of manual intervention which does not guarantee advertisement playback. That is the reason our D-Cinema advertisement revenue used to be extremely low compared to other E-Cinema screens even though the average advertisement revenue potential of these D Cinema screens is significantly high and is comparable to most of the multiplex screens. The primary reason for this was the fulfillment of playout of advertisements and that is why we developed Download Boxes and integrated it with the D-Cinema servers. This required technical field support for integration, training the operator and monitoring of advertisement playout. It will take a couple of quarters to stabilize this technology and then we will have the flexibility and guaranteed playback of advertisement like E-Cinema in the D-Cinema system also.
- Kashyap Jhaveri:** We have ~1,500 D-Cinema screens, would each screen require technical field support?
- Sanjay Gaikwad:** We have deployed this temporary manpower in 300 plus screens at about 270 locations.
- Kashyap Jhaveri:** Is this man power outsourced?
- Sanjay Gaikwad:** This manpower is outsourced and it ensures that this new technology is deployed and we get the same level of guaranteed advertisement playback like we have in E-Cinema.
- Kashyap Jhaveri:** The number of Caravans has gone up from 30 to 90 vans but the quarterly run rate on revenue has not picked up. The quarterly expenses are ₹4 to ₹5 crore on that business and we are spending about ₹16 crore on Opex. What is going on over there? We did revenue of about ₹1.3 crore on 30 vans in Q1FY16, i.e. ~₹4.5 lakh per van. Now, at 90 vans, our revenue is about the same, why has the revenue per van declined?
- Kapil Agarwal:** Last year, we started with 24 vans and this year we have 91 vans. Now 24 vans was a very different operation and 91 vans is a different operation where each van covers 7 villages. Due to local conditions, there were a lot of challenges on the ground and we have been tackling it. In fact, a detail explanation of the measures taken is included in our investor presentation. There will be no operation in Q2FY17 due to the monsoon season. But, we are seeing a completely different traction with the IMRB report and with the automated announcement system, these corrective measures which had to be taken were launched on a larger scale in over 700 villages. Whatever learnings we had, we have taken all those corrective measures which are under implementation right now and going forward, we expect a completely different scenario and cash breakeven situation in H2FY17 in Caravan Talkies as we have guided earlier.
- Kashyap Jhaveri:** Caravan Talkies should breakeven in H2FY17?

- Kapil Agarwal:** Yes.
- Sanjay Gaikwad:** In Q1FY17, Caravan Talkies faced lot of challenges and the advertisers presented a lot of doubts on the reported numbers of viewers. The reported numbers averaged 220 to 250 eyeballs per show and that validation was required. That is the reason we did a very comprehensive IMRB survey in this quarter. The reported numbers from the survey has an average occupancy of 226 eyeballs per show. Further, the effectiveness of the medium and the recall value in terms of the RoI for the advertisers has been established. This study will now be used to start showing results in H2FY17.
- Kashyap Jhaveri:** Why is there is a very minor decline of 43 advertisement screens in Q1FY17 over Q4FY16?
- Kapil Agarwal:** About 20 to 30 screens marginally keep going up and down all the time and that will keep happening because a lot of screens go into renovation, some screens move to competitors and some screens come back from the competitor. In fact, we added 30 to 40 screens in July itself. This marginal move in the number of screens will always keep happening and that is not a cause of worry.
- Moderator:** The next question is from the line of Abneesh Roy from Edelweiss Securities.
- Abneesh Roy:** The advertising revenue has been volatile, December quarter was slow and this time also it is slow. I do not see the same level of volatility in multiplex chains or other media companies which can also get impacted because of the ICC World Cup. Why would it impact you more?
- Kapil Agarwal:** That is not entirely true, multiplex chains also witnessed some impact. Multiplexes have delivered lower advertisement growth in Q1FY17 compared to growth in Q1FY16. Further, advertising in large multiplex chains is an established medium and they were an established medium last year as well and we have started getting established in the last couple of years. Last year, we saw a huge churn, in fact we had given a guidance of 35% and ultimately we ended up with 35.3%. Growth varies, in Q2FY16 it was under 8%, 88% in Q1FY16, 55% in Q4FY16 and 15% in Q3FY16. This quarter is only 10% while Q2 is a completely different picture.
- Sanjay Gaikwad:** Q2FY17 is looking really good. Our final number are yet to come but if I go by July number itself, it is going to be one of the highest revenue generating month from the advertisement perspective in UFO's history. It would be anywhere between 50% and 55% of last quarter's revenue which will come from July i.e. in one month.
- Abneesh Roy:** What is the reason for July being good?
- Sanjay Gaikwad:** Blockbuster movies play a significant role, like Sultan and Kabali were more anticipated movies. These movies bring green shoots in the advertisement revenue. Good movie line up in the current and subsequent quarters will keep driving this advertisement revenue.



- Abneesh Roy:** You are clubbing Corporate, Framez and Caravan together. We know Caravan revenues but can you give us some colour in terms of split between Corporate and Framez?
- Ashish Malushte:** We have started the whole process of hyperlocal – Framez in the month of February and the DSA appointment process for the identified clusters completed in the month of April. Small hyperlocal revenue has slowly started trickling in May onwards and that is the reason why currently we are not having any specific focus in our presentation on hyperlocal. We are waiting for it to mature.
- Abneesh Roy:** Is bulk of it Corporate?
- Ashish Malushte:** Corporate is one segment and corporate includes trailer as a second segment. Corporate has national level advertisers and regional level advertisers. The hyperlocal advertisement segment is under Corporate segment which is yet to mature, it should mature soon and we will start presenting it.
- Abneesh Roy:** Are we targeting hyperlocal advertisers through your own pay rolls or is it through third-party?
- Sanjay Gaiwad:** We have developed a cloud base engine for hyperlocal and we have divided all our advertisements screens into 600 clusters and for every cluster we decided to appoint a Direct Sales Associate. We publish the rate card and we publish the discount on that rate card and then it is up to the DSA at what rate he wants to sell in the market and finally once he goes to the local advertisers, he handles all the local logistics right from creating the slide for him to uploading it onto the cloud. Then, the technology takes over and we convert it into UFO's format and it gets delivered via satellite to the respective theater. Based on the schedule, the advertisements are played and logs are generated automatically and bills are also automatically generated based on the generated logs. Every DSA deposits an amount with us and from this deposits the booking of the advertisements are actually deducted. And, on a monthly basis, he keeps replenishing his deposit amount depending on how much he has played back. This is how hyperlocal advertisement solution – UFO Framez works.
- Abneesh Roy:** Is pricing growth around 5% and volume growth around 4% in the 9.5% advertisement growth?
- Ashish Malushte:** Volume growth is 4.5% and pricing growth is 7.5% and there is 1.7% reduction due to slight reduction in the screens resulting in overall 9.5% advertisement growth.
- Abneesh Roy:** Why are the screens lower?
- Ashish Malushte:** We said that this is a moving target and the number is going to be in the same range. While we speak another 40 screens got added in the first two weeks of July itself.
- Abneesh Roy:** Could give us some color on the different sectors in the Corporate which you have cracked successfully?

- Kapil Agarwal:** One of the biggest sectors who are advertising on our medium is the sector which attracts maximum number of advertisers themselves, i.e. the satellite channels. All the four major bouquets of the satellite channels in the country together form one of the largest segments advertising on UFO's network. They attract thousands of crores of advertising for themselves and they are so convinced about this medium that they are one of the biggest segments which is advertising on our platform.
- Sanjay Gaikwad:** In terms of the breakup of the industry in the current revenue mix of Corporate; FMCG constitutes 21%, Media & Entertainment constitutes 19%, Beverage is 14%, Textile, Apparels and Branded goods is approximately 11% then you have Realities, Auto and Trailer constituting 5% each, and then you have sub 5% segments.
- Ashish Malushte:** The reason why we are not giving a breakup of the segments is because we have more than nine segments. These are the broad numbers. There was a specific question last time about our categorization industry wise, so this is a broad breakup which we have worked out and we will start incorporating it at the right time in the presentation.
- Abneesh Roy:** Beverage should be part of FMCG only, what comes under Beverage?
- Ashish Malushte:** You have different types of beverages, there was a launch of Parle's new product and Coca-Cola which have started testing our advertisement network.
- Moderator:** The next question is from the line of Yash Jhaveri from Alder Capital.
- Yash Jhaveri:** What is the realization for Corporate and Government advertising per minute?
- Kapil Agarwal:** The Government has a constant rate because this rate is given and governed by the DAVP. Whether it is a One Rupee advertisement or ₹1 crore or ₹10 crore advertisement, rates remain constant. However, in order to drive the minutes, we are doing a volume led growth where we are trying to attract more and more Corporate advertisers. Now in terms of the Corporate advertising, for a small advertiser the rate may be in excess of ₹100 while for an annual deal or a six months deal or for a commitment of ₹2 crore, ₹5 crore or ₹7 crore, we work out rates very differently. When you look at the blended rate, you will find it lower but actually there are a lot of Corporates who are paying much higher than what the Government is paying as Government rate is completely constant. And it really depends if somebody is advertising for ₹50,000 or ₹6 crore. That is how we drive the rates very differently, we structure very innovative deals for the advertisers. Otherwise rates are much higher in Corporate.
- Yash Jhaveri:** Is there any seasonality in the advertisement revenue shared with theaters?
- Kapil Agarwal:** There is no seasonality in that.
- Ashish Malushte:** The sharing is a percentage of revenue plus there is a minimum guarantee that has to be given. Therefore, my sharing percentage is higher than my contractual sharing of 25%. In the quarter

where we have higher advertisement revenue, the minimum guarantee is lower as a percentage of revenues and therefore the overall sharing percentage is slightly lower versus the quarter in which my revenue is lower, as a result the minimum guarantee starts hitting the overall percentage and the percentage starts going up. Therefore, sharing in Q4FY16 was sub 30% because Q4FY16 was a better quarter in terms of revenue versus the current quarter.

Kapil Agarwal: The overall sharing for Q1FY17 is slightly above 31%.

Yash Jhaveri: Have we appointed DSAs for all 600 clusters?

Kapil Agarwal: No, all DSA have not been appointed. We have appointed over 200 DSAs and are in the process of appointing the rest. This is a new business and a lot of DSAs are being appointed. If the DSA does not perform in 2 to 4 weeks, we change the DSA. A lot of DSAs were appointed but we are only keeping those DSAs who are performing because this business is going to be a very important going forward. Each DSA before appointment is individually screened, interviewed, appointed, trained and put on the field.

Moderator: The next question is from the line of Naval Seth from Emkay Global Financial Services.

Naval Seth: Corporate advertisement revenue declined substantially. Was there any one time advertisers which came in Q1FY16 and was that the reason we had a higher base. Have categories of advertisers which were present last time reduced spends this time?

Kapil Agarwal: There is absolutely nothing of that sort. The Corporate advertisement growth was very high in the Q1FY16 and we grew by almost 88% and this year the growth is only 10%. There is absolutely no category which has moved out. In fact, we have delivered this 10% growth on a higher base. If they had moved out then as we mentioned that the month of July is one of the biggest months in the history of UFO in terms of the advertising revenue which of course will be unveiled in due course, would not have happened.

Sanjay Gaikwad: Some Corporate revenues expected in Q4FY15 had moved to Q1FY16 because of the ICC World Cup, that is the reason the Corporate base turned higher in Q1FY16 and gave a very high growth of 88%.

Naval Seth: You have only two quarters i.e. Q2 and Q3 to reach the 30% guidance mark because Q4 again will have a higher base of 55% growth of last year and spends might be lower from Government or something of that sort. Will Q2FY17 be heavy in terms of growth?

Kapil Agarwal: Yes, Q2 should be pretty heavy on growth. We have been guiding from day one that ours is not a quarterly business. It is an annual business, we have given an annual guidance of 30% and even last year we had given a guidance of 35% and we ended up achieving 35.3%. We delivered 88% growth in Q1FY16 and under 8% growth in Q2FY16. Fluctuations are very high and this is what you will see going forward because the advertisement revenue depends on a lot of external factors including what kind of movies are released, external events like

World Cup, Football, etc. Various factors have to be taken into account while giving annual guidance.

Sanjay Gaikwad: While Q2 and Q3 will give good growth, even Q4 should give a good growth despite 55% growth last year because again for showing 55% growth in Q4FY16, Q4FY15 was depressed because of the World Cup and that is the reason Q4FY16 was on the higher side. So even if that 55% looks high in achieving that base is not very high unlike Q1FY16.

Naval Seth: You highlighted that there are over 200 DSAs, will we reach our target number of DSAs by end of the current fiscal and would be up and running completely by Q4FY17 or will it get spilled over to Q1FY18 where all the screens would be under UFO Framez hyperlocal advertisement?

Sanjay Gaikwad: We are in the process of appointing DSAs, we could have straight away appointed 600 DSAs but most of those would remain dormant and then it can unnecessarily spoil the product. Instead of that, our focus is on appointing DSAs who are effective and efficient. While we will continue to appoint DSAs in next few quarters, the existing DSAs will go through the churn process. In fact, we have churned over 100 DSAs in last three months because of non-performance. Our focus is on having those DSAs who are going to present us properly and who are equipped with all the marketing tools. They go through a training process. Our current focus is on increasing the effectiveness of the DSAs and we are seeing results. Framez is at an extremely nascent stage, in the month of April when we just launched Framez, our revenue was ₹16,000, in May it was ₹59,000, in June it was ₹3,34,000 and in July it was ₹6,26,000 and our billing in the first three days of August was ₹3,97,000. Our current focus is on how our existing DSAs keep bringing more business by increasing their effectiveness, while we keep scouting for more DSAs in other areas. The focus is on improving the effectiveness of the current DSAs because looking at this opportunity anybody can just apply and become a DSA. For a DSA to be effective we need to gear up and we need to provide them with the right tools and the focus is on building this DSA network in these next two quarters.

Naval Seth: Other operating revenues and total sale of products has declined, is there seasonality here?

Ashish Malushte: As far as the equipment sale is concerned, the major decline is in equipment sale and the equipment sale decline is something which last time we had highlighted in the Q1FY16 call that there was an exceptional uptick in the sale of equipment in our Middle East operations and which eventually by Q3 settled down and since it is a one of a kind sale, the sale has not recurred in that particular volume. And therefore you see a reduction of ₹3.4 crore in the equipment sale.

Naval Seth: Should we treat ₹15 crore as the quarterly run rate for the next quarter?

Ashish Malushte: Yes, it would be in the same range or slightly higher.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Managers.



- Pritesh Chheda:** How much was Caravan Talkies - VDSPL's EBITDA loss?
- Ashish Malushte:** EBITDA loss of VDSPL was ₹32 million in Q1FY17.
- Pritesh Chheda:** Was this number in Q4FY16 ₹3 crore?
- Ashish Malushte:** It was ₹2.9 crore.
- Pritesh Chheda:** What will be the impact of the merger on the consolidated P&L of UFO?
- Ashish Malushte:** It has two immediate impacts, first those companies have ongoing expenses. Revenues are not there but to maintain those companies, you have an ongoing cost of the audit fees and regulatory payments, that put together is a saving of over ₹25 lakhs annually. It is going to result in a lot of operational flexibility when we look at the merger of UFO's operations and Southern Digital Screens operations. Because of two entities in existence, there is a problem. Those two entities needed to be in existence because of the taxation reason and probably GST coming in will also get eased out. Financially, this is a derived benefit of the merger. If you look at our consolidated balance sheet, there is a goodwill of over ₹170 crore and post-merger, significant portion of that goodwill would get adjusted against reserves and result in a much leaner balance sheet which is more representative of the capital which is currently employed in the business giving you true analysis of what is the RoCE and RoE of the business.
- Pritesh Chheda:** Will there be an expense reduction in the P&L?
- Ashish Malushte:** Yes, indirect impact will be difficult to quantify which is the operational efficiency. Therefore the direct quantified impact which we told you would be of ₹25 lakh.
- Pritesh Chheda:** What are the areas of operations of those companies? Why were those companies set up?
- Ashish Malushte:** Southern Digital Screens is currently 100% held by us, it was 84% on 31st March 2016. That Company started in 2008 as a franchisee operation but it grew very fast and reached a level of 40% of my network. Therefore, when we did our second round of private equity raise, that was the time we took a strategic call of taking a majority stake in that Company. In 2011, we moved to 51% and from there we moved to 84%. To come back to what this Company does, that time being a franchise it exactly does what the digital cinema business of UFO does, which means that this network would have been out of my control had we not acquired that Company that time. The nature of the business of SDS is exactly that of UFO and that is where the synergy is coming. Two international companies, Edridge and UFO International are the companies where UFO's IP is housed and where there were initial efforts to do the international roll out respectively. Therefore the investments were made and the last Company which is supposed to be merged is V. N. Films which is primarily in the business of programming but being a very small business and not the core business for UFO, that Company would have remained there but since we are going ahead with this merger we decided to include this Company also in the merger.

- Pritesh Chheda:** You said that you would have a chance to write off the goodwill, would it be close to ₹130 crore?
- Ashish Malushte:** It is a derived benefit. Because the merger is taking place, the goodwill would eventually get adjusted and that would be to the tune of ₹100 crore.
- Moderator:** The next question is from the line of Jagdish Bhanushali from Florintree Advisors.
- Jagdish Bhanushali:** Is Government advertisement a factor of big ticket releases?
- Kapil Agarwal:** No, it is not. Q1FY17 growth of Government advertisement has been substantial despite no big release and the Corporate advertisement as we explained has not grown because of the base last year which was very high.
- Jagdish Bhanushali:** Corporate advertisement would be a factor of big ticket releases for sure.
- Kapil Agarwal:** That is one of the factor, we sign either annual deals or long-term deals spanning over 3 - 6 months and we give lower pricing to these customer while the people who come only for big releases, they are charged higher.
- Jagdish Bhanushali:** Is it fair to assume that ₹22 crore of Government advertisement revenue is sustainable and we could grow going forward?
- Kapil Agarwal:** Yes, most segments are growing, Government as well as Corporate. When our advertisement revenue was ₹37 crore, Government revenue was 80%. Now that 80% which was under ₹30 crore grew to more than ₹80 crore in FY16 and this year it should grow further.
- Jagdish Bhanushali:** What is the scope of advertising screens going up for UFO?
- Kapil Agarwal:** Very marginally. There are screens or there are multiplex chains which did not give us their advertisement rights. Out of these, there are major chains and outside of that there are smaller chains. We continue to negotiate with those small chains and keep acquiring their advertising rights. Marginally, they are going up once in a while but there is not too much of scope of the advertisement number of screens going up and that is not our real worry. Last year, we did 4.15 minutes of average advertisement inventory utilization and our target is volume led growth. Our target is to go to 15 minutes and more than triple volumes and double the pricing over a period of next few years. That will bring a 7 times growth in terms of the overall advertising revenue. That is our real target and not adding 50-100 screens here and there.
- Jagdish Bhanushali:** You mentioned that 30% growth is our target for FY17 and that will mainly volume led growth but in this quarter it was 4.2% growth YoY. Is it fair to assume that in terms of volume, we would be doing a growth of 40% hereon in upcoming three quarters?

Kapil Agarwal: It will be a mix bag. We always take some value growth. Pricing year-on-year has gone up slightly by 7.5%. We take raise in pricing in the Corporate advertising and the Government advertising is more or less constant, because the rates given by DAVP were fixed in 2010 and we are still continuing the same. We are sitting with the Government, we are campaigning with the Government and with the I&B Ministry to increase that price as well because there has been inflation. Growth is going to come from a mix; some portion from pricing but major portion from volume because volume is available and we do not want to compromise on the volume because of the pricing. But at the same time we are not dropping the pricing, rather we are taking consistent increase in the pricing as well.

Jagdish Bhanushali: In terms of understanding the Government budget for advertisement which is fixed for the whole year, what would be the growth rate in Government advertisement budget for us or for the country as a whole in terms of cinema advertisement?

Kapil Agarwal: Government advertisement should not be mixed with just Government. Government has multiple segments. It is very difficult to give you the budget because Government includes the Central Government and that Central Government has about 30 different departments and a lot of new departments keep coming up for advertising each year like when Prime Minister launched the “Jan Dhan Yojana”, “Financial Inclusion Program” or a “Swachh Bharat Abhiyan”. There are 30 State Governments which advertise and each State Government replicates the federal structure of the Central Government. We have now started approaching a lot of State Governments. Initially it was only Central Government but now we have about 15 State Governments advertising with us. They have their own advertisements which they advertise within the State which relates to the people of that State or the tourism advertising which they want to do outside their States. This is the second segment which is growing. 15 State Governments are now advertising from 2 - 3 State Governments four years back. There is no budget as such of these State Governments. Third segment in the Government is the PSUs. ICICI Bank or Axis Bank is from the private sector and when we go to a PSU bank like State Bank of India, Punjab National Bank or Bank of Baroda, they are PSU or we go to LIC or to BSNL or Coal India, these are all segments lie within the Government under PSU sector. There is no way we can find the budget of all these Indian PSUs, state PSUs, Central Government, or State Government. What we have seen is from ₹6 - ₹7 crore advertising seven years back, we did over ₹80 crore of advertising in FY16 from the Government and PSU sector and even this year we are seeing good growth in the Government advertising.

Jagdish Bhanushali: Have we got anchor advertisers for Caravan Talkies and if you could give us a number and how many anchor advertisements have we got?

Kapil Agarwal: We are working on it. August and September is a defining period, because we want to open the month of October with substantial vans with anchor advertisers and a lot of these are getting closed between now and September. We will talk in more detail in October.

Jagdish Bhanushali: Are companies like Star or Zee willing to advertise on Caravan Talkies?

- Kapil Agarwal:** Yes, one of them is closing a major deal with us for Caravan Talkies.
- Jagdish Bhanushali:** How many of our screens was Sultan and Kabali released on?
- Kapil Agarwal:** Sultan was released in more than 3,000 screens.
- Moderator:** The next question is from the line of Urmil Shah from IDBI Capital Market Services.
- Urmil Shah:** We had earlier attributed that we would want the current vans to start performing well. When do we actually see you adding on to the capacity?
- Kapil Agarwal:** We do not want to add capacity till we see good traction in these current vans. What we are anticipating is that we should see very good traction in H2FY17. If we see good traction in Q3 then we will start adding vans in Q4 and if we see good traction in Q4 then we may start adding vans at the end of Q4 but one thing is sure that we do not want to do any further Capex till such time that this business has stabilized.
- Urmil Shah:** When you are talking about achieving cash breakeven in the second-half for Caravan, should we expect this to be driven by anchor advertisements or how should we expect the advertisement growth?
- Kapil Agarwal:** Anchor advertisement for Caravan business is the key. Are you taking about external branding when you are saying anchor advertisement?
- Urmil Shah:** Yes.
- Kapil Agarwal:** Anchor pricing is done with external branding along with some onscreen advertising for the same advertiser. External branding is a moving hoarding which gives substantial visibility. This external advertising itself takes care of all our variable costs. Our effort is that all or maximum vans external branding is sold i.e. to anchor advertiser. That is what we are planning and that is what our effort is. This gives us cash breakeven straight away per van because there are operating costs of a van like the diesel, people, and film content that we have to buy on a per show basis, etc.
- Moderator:** The next question is from the line of Vikash Mantri from ICICI Securities.
- Vikash Mantri:** Can you give guidance for VPF growth for FY17?
- Kapil Agarwal:** VPF has two parts. One is the VPF which is sunset where there is negative growth which we have spoken about. The second part is the continuing VPF of the Indian non-Hollywood studios. We do not think that there is any guidance for that because the VPF revenue is constant. We increased our price last year and hence we saw some growth last year. We do not intend to increase the price but we keep accessing it because we have to create a very delegate balance of increasing the VPF versus the footfalls because our focus is on footfalls, that

maximum people should come to watch cinemas. We do not want to do that by increasing VPF as the distributors stop giving their films.

Vikash Mantri: Agreed, but you have been giving guidance on advertising and if you give guidance on VPF we will have a much clear visibility. Advertising is a function of movie releases. It would be good for investors to know the D-Cinema and E-Cinema VPF guidance?

Sanjay Gaikwad: UFO's VPF rate card has a first week and second week charge. We have not changed the rate after we did one change in April 2015 and after that we have not changed the rate and we did one rate change for regional films. Higher churn of the movies in theaters means if there is faster churn in the movies, our VPF revenue will go up. But that churn is not decided by us because it is decided by the industry as how movie performs, that is the reason we will not be able to predict. But looking at the maturity of the number of movies which are produced, movies are not increasing the way it has increased previously, this VPF revenue will remain more or less flat.

Ashish Malushte: Yes, that is exactly the guidance which we have been giving when we meet the investors and there is a specific question around it. The guidance goes this way, the revenue from VPF is going to be more or less stable because we are not anticipating any significant rate hike. There will be a yield effect and that yield effect can be factored in the range of 2% to 4% which is visible year-on-year.

Vikash Mantri: On the screen side, while we see few screens go plus and minus, what are the technicalities? When few screens go and when we see that movement has happened from last quarter to this quarter of decline of 35 odd screens, does it mean that the actual people who have churned out are higher and when the screens churned out, do we end up incurring any losses on the capital?

Kapil Agarwal: There was a decline of 35 screens from Q4 last year to Q1 this year. In July first-half itself we saw around 35 to 40 screens coming back. This number keeps going up and down. A lot of screens go into renovation and then they come back. That is how these screens get added.

Vikash Mantri: The number that you gave is a net number, the additions and subtractions also in the year had different screens in nature?

Kapil Agarwal: Yes, you are absolutely right this is what happens because a lot of screens also go to the competition and a number of screens come from competition and they may necessarily not be the same screens.

Vikash Mantri: When this churn happens, is there any Capex cost for us or whatever we have incurred? How does that work out?

Kapil Agarwal: When you are trying to get a screen from the competition they want all new equipment so you end up doing the Capex on that screen and that is why we consistently give our guidance of



₹50 to ₹60 crore of Capex. That includes the replacement Capex of our current screens and some Capex for the screens that you bring from competition.

Moderator: The next question is from the line of Prasad Padala from Investec Capital Services.

Prasad Padala: Is there any progress on the Hollywood film releases on UFO M4 format?

Kapil Agarwal: No, there has not been any further development. Last year two movies were released which were Fast and Furious 7 and Jurassic World and after that no other movie has released so far on the UFO Network.

Prasad Padala: Since IPO, not much progress has been made on this front, right?

Kapil Agarwal: Correct.

Prasad Padala: Any specific reason on the strategy regarding this?

Kapil Agarwal: No, these are the individual views of the six studios. Some studios like Universal took a view that they would like to release their major movies on the non-DCI network which is our major network of 3,500 screens because this network is very deep and can be played in different languages. For example, they released the movie in four languages which were English, Hindi, Tamil and Telugu. For Tamil and Telugu, we have the largest network in Andhra Pradesh, so they wanted to take advantage of that network. Other studios are still being governed by their global guidance that they will not release on the non-DCI screens but we would say that there are studios, at least three studios that are constantly talking to us and exploring the possibility. It might happen in future but there is no surety whether it will happen or not.

Sanjay Gaikwad: The major reason from the studio's perspective is that they want a control on the license given to theaters because in the non-DCI system the control of issuing license to the theater is with UFO. As we get the release order, we issue the licenses whereas they wanted that licenses to be issued by their own lab like Deluxe or MPS. For the last movie which was released, we actually developed those interfaces where there is a dual control of the licensing with us as well as with them. That is where they are getting the comfort with us. MPS is one of the labs that is already integrated. Deluxe is the biggest lab with which most of the Hollywood studios work, that integration with Deluxe is going on. Post that integration, some of the studios may start looking actively.

Moderator: The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors.

Kashyap Jhaveri: The rate per minute in this quarter is roughly about ₹73, which is 7.5% higher compared to last year and for the full year we will probably see 7% to 8% growth. Could you highlight what would be the normal steady state increase that one can expect on rates per minute?

- Kapil Agarwal:** Currently we are looking at 5% to 6% increase every year. The 5% to 6% increase is coming only from Corporate. If Corporate is half of total advertisement revenues, that means you are looking at a 10% to 12% increase on the Corporate advertisement while the Government remains constant.
- Kashyap Jhaveri:** I understand that there have been quarterly ups and downs based on certain events but if I look at the trailing four quarter's number, the total is roughly ₹73 odd crore and that is a growth in period ended June 2015 on a trailing four quarter number is about ₹63 odd crore. If I look at four quarters put together on rolling basis ₹73 crore versus ₹63 crore, that is a growth of about 15% to 16%. What makes you so confident about this part of advertising, one you mention is hyper local but can that take care of the kind of growth that we are looking for?
- Kapil Agarwal:** We are not actually factoring in growth from hyperlocal advertising in the current year. We are in the process of appointing these DSAs, we are stabilizing them, and we are churning the DSAs. That is going to stabilize by end of this year and will give us result next year. But right now we are purely talking about the kind of contracts that we have in hand and the kind of traction that we are seeing. Like we said that July is one of the best months that we have had in the history of UFO so while June was very depressed, July certainly has cropped up. The kind of contract, the kind of visibility that we have, we are projecting 30% growth guidance.
- Moderator:** The next question is from the line of Dikshit Mittal from Subhkam Ventures.
- Dikshit Mittal:** On Caravan Talkies, can you give the breakup of fixed and variable cost for the last quarter?
- Ashish Malushte:** This business is relatively simple in terms of understanding. Every Caravan when it is put to use, there is an operating cost which is basically the running of the van and the man power on an outsourced basis which is deployed on that van including the technical support, that cost is around 1.1 lakh per month and then you incur a variable cost for the content that you show which is typically in the range of ₹20,000 to ₹30,000 a month and the fixed cost is a corporate overhead which has incurred at the corporate level.
- Dikshit Mittal:** What kind of fixed cost will Caravan Talkies incur during monsoons when it is not operational because you will be saving only variable cost of ₹30,000 per month?
- Ashish Malushte:** This comes down significantly during this period as it will be in hibernation period.
- Dikshit Mittal:** Loss projection of ₹1.1 lakh per month per van will be the fixed cost anyway, you have to incur whether you operate or not?
- Ashish Malushte:** Correct.
- Dikshit Mittal:** On Framez arrangement with DSAs, what will be the kind of revenue sharing arrangement? What is the EBITDA margin in Framez?

- Kapil Agarwal:** Our rate card is net-net to us with certain discount and then we leave it to the DSA to decide his discount in the market. What we have seen in the actual practices is that, there are DSAs who are sharing their discounts with the client and there are DSAs who are charging much higher from them. We are only concerned about what is our net rate.
- Dikshit Mittal:** DSAs would not be getting any fixed payments?
- Kapil Agarwal:** Not at all, there is no sharing at all with the DSAs. DSAs are totally independent. We do not shared any expenses, we do not share any commission, we just fix our rate card, discount net to us. What we receive is net which we deduct from his deposit. It is a completely prepaid model. We do not chase anybody for any collection, money comes in advance. A DSA deposits ₹50,000 with us and he writes a business of 5,000 and the net to us hypothetically say ₹3,500 or ₹4,000, we just deduct ₹4,000 from his deposit. When his deposit is nearing to zero, he has to top it up otherwise he cannot upload the advertisements any more. It is a completely prepaid model.
- Dikshit Mittal:** We ended the last year with average minutes of 4.15 minutes, what is the target for FY17?
- Kapil Agarwal:** It will be a mix of the minute utilization and the rate. You can take approximately 20% to 25% increase in the utilization in addition to four minutes and around 5% to 7% will come from price increase.
- Dikshit Mittal:** What gives you the confidence that Caravan will break even in the second-half? Do you have any visibility on the upcoming contracts that we will be breaking even?
- Kapil Agarwal:** Yes, there is a good visibility, we are negotiating a lot of contracts in the month of August and September and we intend to open October with a good order book and based on that visibility we are guiding the market that we should be breaking even in H2FY17.
- Dikshit Mittal:** Can we do ₹3 to ₹4 crore revenues per quarter by the end of this year?
- Kapil Agarwal:** Our target is more than that.
- Moderator:** The next question is from the line of Dheeresh Pathak from Goldman Sachs (India) Securities.
- Dheeresh Pathak:** Does minimum guarantee go up every year?
- Ashish Malushte:** No, minimum guarantee is contractually for full year and typically that is a fixed amount, therefore you are seeing sharing as a percentage of revenue coming down significantly from 40% level which was there about two years back to current level of 30% odd and it is more or less fixed amount year after year. In some cases, there are some variations made but that amount does not changed for each and every case.

Dheeresh Pathak: In FY15 you shared ₹40 crore and you shared about ₹47 to ₹48 crore in FY16 and for both the years ratios were more than 25%. You were providing minimum guarantees in both years. Why did it go up from ₹40 to ₹48 crore because screens did not go up rather screens actually went down? When it went up from ₹40 to ₹48 crore it means that minimum guarantee share has gone up from ₹40 to ₹48 crore.

Kapil Agarwal: If you look at the percentages, the percentage for Q1FY16 was 32.8% and Q1FY17 is 31.39%. What we are monitoring is that, the percentage should be constantly going down, the FY16 percentage was under 31%. Fluctuations are there, if the revenue is less, the percentage slightly goes up. We are expecting this percentage to stabilize around 27% to 28% overall.

Dheeresh Pathak: I am asking a different question, what I am saying is that, your contracted sharing is 25% and then there is a minimum guarantee. In the last two years, I am not looking at this quarter versus last quarter but I am looking at FY16 versus FY15, in both the years you were above 25% that means in both the years you are paying the minimum guarantees, right?

Ashish Malushte: Correct.

Dheeresh Pathak: In FY15 you shared ₹40 crore and in FY16 you shared ₹48 crore.

Ashish Malushte: What you are trying to do is, you are trying to compare FY15 figure absolute of sharing with FY16 absolute and your assumption is that everything remains equal and MG is substantially higher than 20% and the amount should remain same if not go down, correct?

Dheeresh Pathak: Yes.

Ashish Malushte: We started building in the MG as a concept in our model only in FY15 which was more towards second-half onwards therefore you will not find the full effect of MG in FY15 which would be there in FY16. This is very good observation but that is how the answer logically goes and we can spend time with you to show you how it has got built up.

Dheeresh Pathak: What was the ₹15 million CSR towards?

Kapil Agarwal: CSR was a Government of India program led by the I&B Ministry and for which certificate is being issued by the Government.

Dheeresh Pathak: How much did you do last year, is this an annual thing?

Kapil Agarwal: We did substantial amount of CSR year before last year, approximately ₹1.7 crore which was enough to cover our two years CSR. Last year we did not incur any CSR and this year the CSR that we have done is ₹1.5 crore which is enough to cover the CSR obligation for UFO as well as for all its subsidiaries which falls under the CSR obligation. We have incurred the entire obligation in the Q1FY17 itself.

- Dheeresh Pathak:** V. N. Films and the Company where the IP was held, were those 100% owned?
- Kapil Agarwal:** V. N. Films is not the Company where the IP is owned but yes, V. N. Films is 100% owned and IP is residing in an overseas Company which is called UFO International Limited which is also a 100% subsidiary. As a result, the IP will move into UFO from an overseas subsidiary.
- Dheeresh Pathak:** When you give the breakup of ₹39 crore of advertisement revenues, is Caravan advertisement revenue included?
- Ashish Malushte:** Yes.
- Moderator:** The next question is from the line of Sachin Kasera from Lucky Investment Managers.
- Sachin Kasera:** You mentioned that you had spent close to a ₹1 crore in terms of upgrading certain screens to bring them at par with the relevant monetizable value of the properties. What is the type of upside we can see from these screens post the Capex that you have done?
- Kapil Agarwal:** First of all let me correct you, we did not spend money to upgrade the screens. We have worked out solution for compulsory play out of the advertisements in the D-Cinema screens and this money was incurred on man power, i.e. the people were deployed to deploy that solution and to start monitoring the advertising and training the local operators.
- Sanjay Gaikwad:** And the effect of that was in the first-half of last year. The average revenue of these screens was approximately ₹1.75 lakh which moved to ₹4.50 lakh. The potential of these screens are at par with most of the premium multiplexes which is ₹25 to 30 lakh per screen. We are actually doing below average compared to all of my other screens. By using this technology and these people, we are now trying to build these screens revenue to a different level.
- Sachin Kasera:** Is the revenue per screen ₹4.10 lakh now and eventually it should move to ₹25 to 30 lakh which is its potential?
- Sanjay Gaikwad:** Yes.
- Sachin Kasera:** And you expect that to happen over the next 2 to 3 years, how much time you think it will take?
- Sanjay Gaikwad:** In the next 2 to 3 years once we have complete control the way it is in UFO screens that have guaranteed playback of advertisements so that no one can play tricks and no manual intervention is possible. Once we achieve that, within 2 to 3 years we expect to achieve at least 50% of the potential.
- Sachin Kasera:** Do you expect them to reach ₹12 to ₹15 lakh in 2 - 3 years?
- Sanjay Gaikwad:** Yes.

Sachin Kasera: You have reiterate your guidance of 30% growth in advertisement revenues for the year and you mentioned that July has been good and August is also looking very good. You also mentioned that July and August have been good because of certain blockbuster movies. What is the type of key inputs you are taking in your guidance? Does this 30% growth assume certain blockbuster movies in next 7 to 8 months or is it assuming the normal trend of the movie releases?

Kapil Agarwal: As we say, it is not a quarterly business, we cannot make quarterly guidance but we can give annual guidance. If you see the trend of any year, while quarter-on-quarter the quality of the movies keeps varying but you will see that similar movies, certain big blockbusters, certain average movies, certain smaller movies will keep coming year-on-year similar to last year. But in which quarter they will come or how they are planned like the IPL affects the release of movies or the World Cup affects its. Q4 generally is good in terms of release of movies but if the World Cup is happening during that period then those movies get deferred to the next quarter. It is on an overall assumption that we sit down and we create the guidance, certainly assuming what movies will come but this is not something which is out of the world. What we assume is based on the past experience as what happens year-on-year but quarters will keep changing. For example, Salman Khan Movies come on Eid, sometimes Eid falls in Q3, sometimes it is falls in Q2 or sometimes it might fall in Q1 because it moves by one month every year. We cannot say when that movie will come.

Sachin Kasera: I understand that and that is why my question was not from a quarterly perspective, I was talking for the full year guidance. We had two good movies in July and August, does this guidance need another 3 to 4 blockbuster movies for the remainder of the year to achieve the growth?

Kapil Agarwal: Our guidance assumes what happens in the year and not in a quarter and based on that the guidance is created. We are not saying that a particular movie will come or a big movie will come in Q4 or Q3 but we know that in four quarters all kinds of movies are going to come and that is what gives the consistency of the guidance on an annual basis.

Moderator: Thank you. That was the last question, I now hand the conference over to Mr. Ankur Periwal for his closing comments.

Ankur Periwal: I would like to thank all of you for joining us today. I would like to thank the management of UFO Moviez for their time. Look forward and have a nice day.

Moderator: Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.