



UFO Moviez India Limited
Q3&9MFY17 Earnings Conference Call

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ANALYST:

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Moderator: Ladies and gentlemen, good day and welcome to the UFO Moviez India Limited Q3&9MFY17 Results Conference Call hosted by ICICI Securities 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. Vikash Mantri of ICICI Securities. Thank you and over to you Mr. Mantri.

Vikash Mantri: Good afternoon everybody. We at ICICI Securities are pleased to host the UFO Moviez India Limited's Q3&9MFY17 Conference Call. We have the senior management of the Company with us represented by Mr. Sanjay Gaikwad – Founder and Managing Director, Mr. Kapil Agarwal – Joint Managing Director and Mr. Ashish Malushte – Chief Financial Officer. Over to you Sir for initial remarks and then we will follow it up with Q&A.

Sanjay Gaikwad: Thank You, Vikash. Greetings everyone and thank you for joining us on UFO Moviez third quarter earnings call for fiscal 2017. I hope that all of you had a chance to go through our press release, quarterly results and results presentation which were sent to the exchanges and uploaded on our website ufomoviez.com yesterday. I will quickly take you through the key highlights and then open the floor for questions.

So to begin with, Q3 traditionally is a strong quarter for us. However, the market conditions during the quarter were uncertain and the overall performance was impacted by demonetization which was indeed a disruptive market event. Despite the challenging business environment, UFO showed resilience and delivered 2.5% Y-o-Y growth in total consolidated revenues to ₹1,488 Mn.

EBITDA stood at ₹434 Mn representing a margin of 29.1% contracting by 180 basis points. This was primarily on account of certain one-time expense items such as managerial remuneration and year on year increase in the SG&A costs. Managerial Remuneration cost of ₹21.25 Mn was charged in this quarter after the same was approved by the shareholders. Of this amount, ₹17.5 Mn pertains to periods prior to the current quarter and to this extent the profitability of the current quarter was negatively impacted. The Company's PBT stood at ₹209 Mn and net profit for the quarter stood at ₹136 Mn.

Excluding VDSPL's losses, our Theatrical and Advertisement business EBITDA stood at ₹453 Mn representing a margin of 30.8%, PBT was ₹252 Mn and PAT stood at ₹179 Mn.

The Advertisement business kicked off the quarter with strong revenue growth of over 50% during the first 40 days and had this trend continued, we were on track to deliver on our 30% advertisement growth target. Advertisement revenue after November 8, 2016 i.e post demonetization declined by over 20% and consequently, the advertisement revenue growth for Q3FY17 slowed down to 5.2%. Along with the impact of demonetization, weak movie content also further dampened advertisement revenues which adversely affected overall inventory

utilization by 10.1% and as a result advertisement minutes sold per screen per show declined to 3.88 minutes during the quarter from 4.36 minutes in Q3FY16. Advertising revenue contributed 29% of total revenues compared to 28% in Q3FY16.

Despite the impact of demonetization in Q3, our nine month ended December 31, 2016 advertisement revenues increased by 20.5% to ₹1,341 Mn. The utilization stands at 4.32 minutes in the period ended December 31, 2016 compared to 3.97 in the corresponding period last year.

While demonetization adversely impacted our revenues, we believe that this impact is temporary and we are confident that the scenario should normalize in the next few months.

The strength of our Advertisement network has remained stable at 3,737 screens compared to 3,726 screens last year.

Our Caravan Talkies business re-commenced operation on October 10, 2016 due to extended monsoons. We were operating 44 vans till November 8, 2016 which were at operating breakeven. However, demonetization adversely impacted the performance of Caravan Talkies because new media was impacted severely and secondly because rural markets were hit the most as people in villages do not use cards, e-payment or digital modes of payment. This resulted in sharp decline in consumer demand in rural areas. As a result, advertisers started withdrawing contracts. Caravan generated ₹8.4 Mn during the quarter. Operating losses reduced over the corresponding quarter last year led by cost optimization initiatives undertaken. At this juncture, I would like to highlight that our breakeven target has been derailed which was expected in H2FY17. However, Caravan Talkies was gaining traction very well pre-demonetization and we expect advertisers who have held back contracts to begin spending as the ecosystem re-monetizes and normalizes.

UFO Framez, our hyper local advertising initiative also witnessed improvement in terms of sales. Q3 revenues have increased compared to Q2, this however is not a significant contributor at this stage. The number of clusters where we have appointed DSAs stands at 329 as on January 31, 2017. We expect Framez to start generating stable revenues from next fiscal.

Looking at the performance of the Theatrical business, our E Cinema VPF revenues grew by 1.9% Y-o-Y. Growth was lower than expected on account of less number of movie releases and some impact of demonetization which resulted in fewer widespread releases.

I am pleased to inform you that we launched a new product 'Curtain raiser' during the quarter with the official trailer launch of Raees on our network. Curtain Raiser enabled Shah Rukh Khan to interact live with audiences across 10 theaters at various locations in India and hundreds of our e-cinema screens witnessed the event live. We successfully showcased our capability of running non movie content which engaged audiences completely.

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

- Moderator:** The first question is from the line of Abneesh Roy from Edelweiss.
- Abneesh Roy:** Advertising inventory has fallen this quarter. How is the recovery in January? Most other media companies are seeing gradual recovery, is recovery faster or slower compared to other media given your profile of advertisers?
- Kapil Agarwal:** We are seeing slow recovery in the month of January. From what have we seen in last 50 days i.e. post demonetization last quarter, the trend has already started reversing. Now, revenues are slowly coming back.
- Abneesh Roy:** Is there growth in case of UFO versus the ~20% decline post November 8, 2016?
- Sanjay Gaikwad:** Post demonetization, de-growth was ~22%. In January that percentage has come down significantly, so we are seeing recovery now.
- Abneesh Roy:** Was there any correction in the advertising rates?
- Kapil Agarwal:** No, the rates have not come down during the quarter because whatever business we had, we stood firm. In fact, we have seen that the rates went up in Q3FY17 compared to last year.
- Sanjay Gaikwad:** UFO's advertisement minutes have come down and revenue has gone up, which is really a good indication that UFO has stood firm on the rates. Our advertisement sales team has worked overnight to bring new customer at much higher rates in place of the advertisement contract which we lost due to demonetization.
- Abneesh Roy:** Is non-movie content like 'Curtain Raiser' monetizable or is it a one off?
- Sanjay Gaikwad:** Whether it is a new commercial or new content, the creative person designs the content keeping big screens in mind. We were actually developing a product for anyone who has a new commercial or a brand who wants to launch its product with a new commercial should look at Cinema as a medium through our product Curtain Raiser. They should actually launch the commercial on a big screen and that is exactly what we did for Raees. Traditionally, trailers are released on digital media directly but everything is designed for the big screen. So, why not first release the trailer on big screen and create a hype around it which will help the trailer become more viral. We demonstrated that successfully with Raees with the biggest brand and biggest star in India. With that in mind, we are taking the case study of the trailer launch of Raees on Curtain Raiser to brands telling them that Cinema can be used for non-movie content.
- Abneesh Roy:** In terms of Corporate advertising, how are things sector wise?
- Kapil Agarwal:** It is a mix bag. There was no clear trend in Q3FY17. A lot of existing clients withdrew contracts or they slowed down advertising. This was rapidly replaced by new advertisers. Thus, there is no clear trend in the last quarter.

- Moderator:** The next question is from the line of Urmil Shah from IDBI Capital.
- Urmil Shah:** On advertisement revenues, what has led to the increase in realization?
- Kapil Agarwal:** In case of the Government, the DAVP rate is more or less fixed. The Corporate advertisement rates grew. The blended rates have increased by 10% to 15% as compared to the earlier quarters.
- Urmil Shah:** What about the performance of UFO Framez? In this quarter, the content wasn't so strong; did demonetization have a significant impact Framez?
- Kapil Agarwal:** At this point, Framez has insignificant revenues and on a weekly basis the revenues are slowly and steadily increasing. Since this business was launched this year, there were no revenues in FY16. Demonetization didn't have any major impact on this business because the base was really small. The focus is actually on appointing DSAs during the year. So, as the number of active DSAs is going up, we are seeing a week by week increase in revenues and the revenue is stabilizing and we will see the impact next year.
- Urmil Shah:** On Caravan Talkies, now that Q4 improvement is also going to be kind of modest, are we looking at operating breakeven only in the second half of next year?
- Kapil Agarwal:** Yes, we can say that because Q2FY18 Caravan Talkies will shut-down because of monsoon. But in H2FY18, Caravan Talkies is likely to be operating breakeven.
- Moderator:** The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors.
- Kashyap Jhaveri:** You mentioned that advertisement revenues in January have been improving but on a Y-o-Y basis, the growth would be probably slower. Would it be better than what we did in Q3FY17? As 50 days of Q3FY17 were impacted, would the first 50 days of Q4FY17 be much better? The content pipeline in January was also pretty good, how would you look at the growth?
- Kapil Agarwal:** Advertisement revenues in Q1 grew ~8% and Q2 grew ~55%, therefore H1 grew by 29.4%. Advertisement revenues grew 5.2% in Q3 and we had given a guidance of 30% growth for the year. For the whole year, we expect advertisement revenues to grow by 20%. So, obviously we will be growing much higher in comparison to Q3.
- Kashyap Jhaveri:** On FY18, if things normalize from Q1FY18 and the pipeline of the movies remains strong, would the advertisement growth will come back to 30%?
- Kapil Agarwal:** For FY18, we expect to have growth of 30%. This year we were on track, H1 grew by 29.2% and H2 pre-demonetization we grew over 50%. Next year we should be able to deliver 30% growth. Although this is early to say but the management is confident about that.

Kashyap Jhaveri: Where does that confidence comes from, is it the pipeline of content, the contracts or does it comes from confidence in Caravan Talkies?

Kapil Agarwal: None of these because the pipeline of content is always there. We have always been saying that Q-o-Q you will not see the same growth. In FY16 quarterly growth was 87%, 8%, 15% and 55%, it varied Q-o-Q but overall we delivered 35.3%. Similarly, in FY17 the growth varies. Thus, growth Q-o-Q and the content will not be similar. We spoke about the yearly guidance and not the quarterly guidance. We analyze trends like acceptability of the medium by advertisers. In FY12 inventory utilization was 1.66 minutes and in Q2FY17 utilization was 5.15 minutes. We had tripled the inventory utilization that demonstrates the trend of acceptability of the medium. Last quarter was very challenging for us as lot of existing clients who had long term contracts kept their campaigns on hold during the demonetization period. Our sales team has worked hard on it and they brought a lot of new clients at much higher and healthier rates. The trend which is analyzed for the next year is that our existing clients will comeback, topped up with newer clients at better rates will give us growth. We are also camping with the Government for revision of rates for last 4 years. We expect that rates will get revised in the next 1-2 quarter which will lead to the growth of overall trends and indicators that we analyze and based on which will give guidance.

Caravan's opening was delayed as monsoons got over by mid-October. Caravan picked up very well, we started with ~30 vans and which increased to 44 vans and then demonetization was announced. The trend was very healthy pre-demonetization. Caravan is yet to pick up in this month and now we are negotiating a lot of contracts. We can see healthy growth in Caravan Talkies next year. We have also factored into this calculation Caravan's FY18 performance.

Kashyap Jhaveri: What is the cash or cash equivalent on the books and debtors?

Ashish Malushte: The net cash number as of December 31, 2016 is ₹32.3 crore.

Kashyap Jhaveri: Is this number down on a Q-o-Q basis?

Ashish Malushte: The net cash has improved.

Kashyap Jhaveri: Can you disclose the gross number? Is there anything in the other current liabilities in terms of debt, maturing debt of less than 12 months which I would not know as of September?

Ashish Malushte: The net cash number includes all liabilities on the loan side whether it is short or long term, and current maturing loans, these are adjusted against cash balance.

Kashyap Jhaveri: If we compare with March 31, 2016 full balance sheet, we had cash and cash equivalent of about ₹95 crore and gross debt of about ₹114 crore. Should we include current investment as part of cash?

- Ashish Malushte:** Yes.
- Kashyap Jhaveri:** Is it possible to disclose the debtors?
- Ashish Malushte:** If you track on our business, you would know that the business in Q3 is usually good and therefore the collections are relatively lower. Thus, the debtor days are higher. This will normalize in Q4 because the incentives are linked with collections in our Company. In Q3, usually the debtor days go up which has exactly happened in this quarter and at a group level the receivables stand at 100 days as compared to 98 days last year.
- Kashyap Jhaveri:** On the business side you highlighted the dynamics of contracts. When we pitch to clients do you say that the medium is established and do matrices like number of screens, footfalls help in establishing the media?
- Kapil Agarwal:** It is more about establishing Cinema as a medium. 10 years ago, this medium did not exist. Earlier these screens were scattered and were owned by individuals all over the country who used to run movies on analog. Very few theatres used to get the first week content. The footfalls were low. Apart from multiplexes, the single screens or the small multiplexes which were scattered over 1,400 locations was not an accepted medium. We consolidated that inventory. We had to change the concept in the minds of people, people always thought that these theaters ran old content, where the condition of the theaters was bad, first week movies did not run here, so the footfalls were low. We created a new medium and started the movement of digitization in this country and got our medium accepted. We started the movement in 2007-08 and advertisement revenues of ₹5 to 7 crore reached ₹ 158 crore in FY16 and today we are talking about 20% growth in FY17. It is not about 3,700 screens or n number of footfalls, although that is the basic ingredient but acceptability of that medium. These footfalls and number of screens existed 2 to 3 years back also. So, we are going to more and more clients every year.
- Moderator:** The next question is from the line of Sangameswar Iyer from Subhkam Ventures.
- Sangameswar Iyer:** You have guided for 20% advertisement growth for FY17, is this in the backdrop that the advertising realization has improved. The minutes per show has dropped to 3.88, how has it been in the month of January?
- Kapil Agarwal:** We don't have January data as of now.
- Sangameswar Iyer:** On a broader level, from an exit perspective, what is the expected minute utilization per show?
- Kapil Agarwal:** Currently, we expect growth of 20% in FY17 i.e. ~₹190 crore of advertisement revenues and ~30% growth next year, additional ₹57 crore i.e. ~₹245 to 250 crore advertisement revenue next year.

- Sangameswar Iyer:** Are we not assuming any further realization improvement in FY18? Is it more predominantly on the volume front?
- Kapil Agarwal:** We are talking on an overall basis. Exit is a combination of utilization as well as pricing. There would be an increase in pricing by the Government i.e. revised rates by the DAVP. It is always going to be a mix of pricing as well as minute utilization. It is very difficult to predict what exactly will be the combination. Whatever guidance we have given in the past two years, we have met the guidance on an annual basis except this year due to demonetization.
- Sangameswar Iyer:** How much increase is expected in the Government rates?
- Kapil Agarwal:** We wish we could get that.
- Sangameswar Iyer:** On the Government business perspective, can you share anything?
- Kapil Agarwal:** We are looking at healthy growth in rates. But, budgets do not change even if the price changes. Budgets remain stable in the short term. The increase in price will have some impact in the subsequent years of revision as the budgets get adjusted to the price based on requirements.
- Sangameswar Iyer:** On Caravan Talkies, when you told that H2 of next year Caravan should break even, is it at the PBT level?
- Kapil Agarwal:** I said operating breakeven.
- Sangameswar Iyer:** For FY17, post-demonetization in Caravan, do you see any pickup in January to March?
- Kapil Agarwal:** January has been adversely impacted as December but we are negotiating a lot of contracts. We are also expecting people to come back in these couple of months. As far as this quarter is concerned, it is going to be depressing again. After considering this, we have given a growth guidance of 20%.
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal:** What is the number of active clusters in Framez?
- Kapil Agarwal:** Right now we have 329 active clusters out of 650 clusters that we have designated.
- Ankur Periwal:** We had 350 plus clusters in Q2FY17, is there a churn that we have seen?
- Kapil Agarwal:** We have more than 400 clusters which are operative but we are talking about the active clusters that are generating business and we are removing the inactive DSAs because that really gives a misleading number. There is very active churning because this is a new business. DSAs come, if they do not perform, we are churning those DSAs and appointing new DSAs.

From next year it will start giving some business worth mentioning as right now the process of stabilization is going on.

Ankur Periwal: How long will this churn continue for?

Kapil Agarwal: This is going to be an ongoing exercise, by the end of this year we should have 400 to 450 active clusters which will contribute 80% to 90% of the Framez revenue. When we are talking about 650 clusters, you are not going to have equal division of revenues from all the clusters. Some clusters are going to be very remote while there will be multiple clusters within Mumbai. Some remote clusters may have five cinemas situated in five locations within a radius of 50 kms, those clusters are much tougher to sell. Basically, 400 to 450 clusters are going to be the main clusters and by end of March we should have at least those 400 to 450 active clusters which have healthy potential of contributing to the major part of the revenue.

Ankur Periwal: 329 active clusters right now targeting 400 active clusters by year end. What was the same active clusters number last quarter?

Kapil Agarwal: Last quarter ~190 clusters were active.

Ankur Periwal: So, 190 active clusters have increased to 329?

Kapil Agarwal: Yes.

Ankur Periwal: We have 112 vans of which 44 were operational in October, What is the plan in Caravan Talkies over the next one to two years?

Kapil Agarwal: We are not making any new Capex on this business except for certain experiments, for example some vans have been converted into LED vans because LED vans have the advantage of 24x7 operations. LED vans can be even put out for advertising or for some other uses even during the day and they are bright enough while the normal screening is only a sun down show. Apart from some small experiments we have five vans which has a very moderate Capex, as a matter of policy we are not incurring any additional Capex. In the last quarter, the number of vans operational was much lower than the same quarter last year but still the losses are much lower because we have optimized all the expenses. Our effort is to generate revenues from those 112 vans and have contracts for them before we start incurring any additional Capex.

Ankur Periwal: We had a cost savings in Caravan last quarter, you mentioned that we will be going ahead with anchor advertisers who will be covering up most of the Opex. What led to lower Caravan losses in Q3FY17?

Kapil Agarwal: We have started hibernating vans. When the van has external branding it covers most of the operating cost except the fixed cost, depreciation and interest. External branding should cover minimum of our operating cost, so when there is no external branding, we hibernate those

vans. Because of hibernation of vans, we have brought down the expenses, the expenses have gone down by ~25% of what the actual expenses were. Last year we were operating a lot of vans in anticipation of getting the external branding but this year we are hibernating those vans which do not have external branding.

Ankur Periwal: In 9MFY17, we have ~₹7 crore of EBITDA loss and over ₹13 crore of PBT/PAT loss in Caravan Talkies against an aggregate Capex of how much?

Ashish Malushte: ₹18 crore.

Ankur Periwal: Are we targeting H2FY18 for operating breakeven which is at the EBITDA level in Caravan Talkies?

Ashish Malushte: That is correct.

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

Prasad Padala: When you say that Corporate advertising blended pricing has increased, can we assume that most of it is actually due to the mix change or is there any increase in the rate card as well?

Kapil Agarwal: If prices increase in one section of the business, the blended price automatically increases. The Government pricing is constant because there is no change in the DAVP rate card. The Corporate business is where we have seen an increase. This has resulted in 10% to 15% increase in the overall blended realization which is driven only by the Corporate business.

Prasad Padala: Is it mainly due to the mix change in Corporate advertising?

Kapil Agarwal: We had long term contracts duration the year, long-term contracts are for three months or six months irrespective of which movies coming. When we have that kind of contract, they get very preferred pricing. A lot of those long-term contracts were actually hibernated during this period. They said that they do not want to advertise. These are mostly FMCG companies who have a lot of rural push and in the rural areas there was no money in the hands of people so they said we want to defer advertising in these areas. Now these were quickly replaced by newer clients who were obviously short-term or movie based advertisers. For example, when Dangal released last quarter and we got ~9 days of Dangal. For Dangal, we got a lot of new clients which were movie based and where we could push the rate much higher because these were one week or two week clients. Because long-term clients run week on week whether it is a small movie or a big movie, they get lower pricing or the preferred pricing. This is where the difference is.

Prasad Padala: Is it primary driven by the mix change, not the hike in the rate card, change in the long-term advertiser versus short-term advertiser?

Kapil Agarwal: Right.

- Prasad Padala:** Why did D-Cinema VPF come down by 8%?
- Kapil Agarwal:** We have been disclosing Q-o-Q from our prospectus that we have certain contracts with the Hollywood Studios which are coming to an end and where the D-Cinema VPF will be gradually coming down and those numbers are available right from our prospectus to all our earlier interactions.
- Ashish Malushte:** In fact, our Q4FY16 Earnings Call had a very specific question and if you go to the transcript you will get those precise numbers.
- Prasad Padala:** Even though I exclude ₹2 crore of increase in managerial remuneration, the operational expenses and employee expenses seem to be growing ahead of revenues. Why are the margins under pressure?
- Kapil Agarwal:** If the advertising revenue was on expected lines, this question would have not been asked. This is because of the depressed advertising revenue. The salaries are fixed at the beginning of the year, it is just a percentage of revenues, if you see in the last five years, we have been constantly operating on an annual basis between 31% to 34% EBITDA margin. This happens only when your revenue is growing faster than your expenses or salaries. The managerial remuneration was a one-off event which we have pointed out because the shareholder resolution was passed last week, so we have taken a provision.
- Prasad Padala:** If operational expenses are growing at 15%, do you see revenues also growing at 15%? Assuming that ad revenues grew by 30%, only then the margins would increase?
- Ashish Malushte:** Any business's fixed expenses like SG&A and man power has certain annual growth. As long as the Y-o-Y growth percentage is going to be there and in a particular quarter if the revenue does not grow beyond a certain level then you will have pressure on the EBITDA margin which has happened in this quarter.
- Prasad Padala:** Do you think the employee expenses or rather overheads would be growing at the similar pace or do you think of most of the investments has already happened?
- Ashish Malushte:** Fixed expenses i.e. SG&A and manpower expenses would continue to grow at a rate at which it generally grows across companies. The percentage would vary Y-o-Y but there will be Y-o-Y growth.
- Moderator:** The next question is from the line of Hasmukh Gala from Panav Advisors.
- Hasmukh Gala:** What is the total Capex this year and in the next couple of years?
- Kapil Agarwal:** We are now out of Capex phase, except for the new projects or maintenance, Capex for maintenance at UFO's level is ₹50 to 60 crore annually and we stood at that guidance.

- Hasmukh Gala:** What will be the Capex for any new project?
- Kapil Agarwal:** Currently the new project is Caravan Talkies where the Capex was ~₹18 crore and beyond that we are not putting any Capex on this project. When the revenues ramp-up there will be additional Capex in this project and we cannot talk about new projects of the future.
- Moderator:** The next question is from the line of Jaineel Jhaveri from J&J Holdings.
- Jaineel Jhaveri:** A multiplex chain has come out with an app. It is a group sourcing concept where people can just go and watch a certain show. Is that something you all can do?
- Sanjay Gaikwad:** We have all the ingredients and technology and we are in the best position to deliver such kind of product. We will have to wait and see how many people would like to do such kind of bookings. Let's see the result of their launch. Although we are in the best position to introduce such an app, we are not sure about the audience's reaction on such group booking. Let us wait and take a call later.
- Kapil Agarwal:** They are exhibitors and we are not. We are just service providers. Even if we do this, we will do it for other exhibitors if they wish to adopt it. At best, we can give our technology.
- Ashish Malushte:** If there are any exhibitors who really want to do, we are in the best position to do it because UFO is the only one in the country capable of delivering content at last minute using satellite.
- Jaineel Jhaveri:** As we are out of debt and over the past two years since the time of the IPO the share prices has gone down from ₹625 to ₹425, is there any thought of doing buyback rather than giving dividends?
- Kapil Agarwal:** We are discussing it at the Board level, what is best for our shareholders; our decision will come in the due course of time.
- Jaineel Jhaveri:** For the past two years we have earnings and now we are going out of debt. Are you all thinking on these lines for a buyback?
- Kapil Agarwal:** I am not saying that we are thinking on the lines of buyback. We are discussing at the Board level what is best for the Company and for the shareholders.
- Jaineel Jhaveri:** Which subsidiaries do we have and have we paid out any money for the remaining percentages of certain subsidiaries which we were going to buy the complete shareholding?
- Ashish Malushte:** You meant in this quarter whether we had any spent on acquiring the minority stake?
- Jaineel Jhaveri:** Right.

- Ashish Malushte:** In this financial year we have completed 100% acquisition of SDS “Southern Digital Screenz” post which we went ahead and initiated our merger process.
- Jaineel Jhaveri:** Will the goodwill go down?
- Ashish Malushte:** The primary objective of the merger is to have the operational efficiencies. But as a result even the goodwill gets optimized.
- Jaineel Jhaveri:** Will the goodwill go down to zero?
- Ashish Malushte:** Not really because goodwill has risen out of different acquisitions, SDS is just a part of it. So to that extent it will be optimized but as we said the primary objective is operational efficiencies.
- Moderator:** The next question is from the line of Nirmal Shah from Seraphic Management.
- Nirmal Shah:** The advertising revenues they are close to 30% of your overall revenues where we are expecting 30% growth in FY18. On a net-on-net consolidated revenues, the other two strings are not expected to contribute much too the growth. So, overall revenue growth can be 10%, 12%, and when you mentioned the fixed overheads which will continue to grow at a rate it has been growing which is again 10% to 12% and specifically part of it is abnormal rise in the employee cost even without this one-off adjustment. So, what is your sense on the margin expansion? I do understand that the advertising revenue growth will help you and your advertising revenue share might keep on increasing there will be some leverage coming. But net-net, if you can just give us some sense on that magnitude of margin expansion, it can happen overall?
- Kapil Agarwal:** Our business has two parts which will be growing; one is the on screen advertising revenue. On business basis, on screen every additional dollar is currently giving us almost a 55% EBITDA margin. It is one of the expansions taking place and we are aggressively working on growing this margin as you have seen that till FY16, five years it grew at a CAGR of 44%. By next one-two years we have been taking about 30% growth almost 55% is going to be contributable to the margins. Similarly, Caravan which is the second kicker of the business will also bring growth in a steady state where we are looking at an EBITDA margin in excess of 40% to 50%. All the new expansions or the growth comes from these two areas and we are also looking forward at new areas. By the next few years, even after taking the expenses into considerations the EBITDA margin which has been hovering between 31% and 34% should see a marginal rise and not depression over a period of time.
- Nirmal Shah:** When you say marginal rise, is it fair to expect some 50 bps to 100 bps improvement Y-o-Y?
- Kapil Agarwal:** Yes, that is the plan.

- Ashish Malushte:** When you look at the manpower cost, it is not completely the fixed cost but also includes ad incentive. All the ad sales members are given a significant part of the incentives. Such cost becomes the direct cost of advertisement revenue. While presenting in the books, it gets clubbed with the man power cost. Kindly note this point while doing any such analysis. As the advertisement revenue increases, this incentive component of the man power will also increase which is variable.
- Moderator:** The next question is from the line of Giriraj Daga from KM Visaria Family Trust.
- Giriraj Daga:** What are the rates in UFO Framez, Government and Corporate?
- Kapil Agarwal:** The government rates are fixed. For the Framez business, which is a retail business that comes for one or two screens we have pegged it at 40% to 50% higher than the Corporate rate. It is not the absolute numbers because it keeps on varying Q-o-Q or contract-to-contract generally we have pegged it 1.5x of our average Corporate rate.
- Giriraj Daga:** What will be the variable cost for Framez?
- Sanjay Gaikwad:** We have fixed rates for the DSA. We have the DSA's deposits and their deposit gets reduced to the extent of the campaign that runs which is booked by the DSA. UFO has fixed rates that are charged to the DSAs; the DSA adds his margin and sells in the market. So, what we are actually charging to DSAs comes in our book as our sales.
- Giriraj Daga:** What is the difference between the Government and Corporate rate?
- Kapil Agarwal:** Both rates are very much similar.
- Giriraj Daga:** How are the rates in the last nine months?
- Kapil Agarwal:** The Corporate rate will be slightly higher than the Government rate.
- Giriraj Daga:** What was Caravan Talkies' revenue this quarter?
- Kapil Agarwal:** ₹84 lakh was the revenue in Q3FY17.
- Giriraj Daga:** Did you say that Caravan Talkies was not operating after mid-November?
- Kapil Agarwal:** The business was withdrawn by November but there were some vans which were operating but by end of the month everything was withdrawn.
- Giriraj Daga:** What kind of per van rate are we looking in FY18?
- Kapil Agarwal:** Revenue potential of a van what we estimated is ₹30 to ₹35 lakh a year could be from external branding as well as on screen inventory that we will be selling to our client and there is a lot of

activation opportunity. We anticipated the overall revenue and assume it to be an eight to eight and half month business.

Giriraj Daga: Are the rates more or less similar to Framez?

Kapil Agarwal: No, it is a completely different business. Here the whole opportunity is very different. We have explained earlier the entire operating expenses comes from the external branding that means when the van is going from village-to-village, the exterior of the van is painted for a particular client. So, when the villagers come to watch the movie it is a moving hoarding. This is a moving hoarding for the client that takes care of all our operating cost. In addition to that when the movie actually runs, we sell spots, and we also do their activation opportunities in the van for example product display. All these revenues combined in a steady state, we expect it to be ₹4 lakh a month over an eight months' period to eight and half month period. That is where we anticipate that when the business stabilizes, we are looking at a ₹30 to ₹35 lakh revenue per annum which gives you a steady between 40% and 50% EBITDA margin.

Giriraj Daga: What is the on-screen rates in Caravan Talkies compared to Government?

Kapil Agarwal: It will be 7x to 8x of the Government rates.

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

Kashyap Jhaveri: Managerial remuneration charged during the quarter was ₹2.1 crore?

Ashish Malushte: That is correct.

Kashyap Jhaveri: Pertaining to previous year or previous quarter?

Ashish Malushte: ₹1.75 crore is pertaining to previous quarters.

Kashyap Jhaveri: Was the net cash ₹32.3 crore?

Ashish Malushte: That is correct.

Kashyap Jhaveri: What was the net debt as on March 31, 2016?

Ashish Malushte: The net debt as on March 31, 2016 was ₹2.4 crore. So from net debt we have moved to net cash.

Moderator: The next question is from the line of Yash Jhaveri from Alder Capital.

Yash Jhaveri: What was the gross debt?

- Ashish Malushte:** The gross debt as on December 31, 2016 including long-term maturity and short-term current maturity is ₹94.6 crore.
- Moderator:** The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management.
- Dheeresh Pathak:** When you said 190 clusters move to 329, so one cluster has how many DSAs?
- Kapil Agarwal:** We have ~3,700 screens with advertisement contract they have been divided into approximately 650 clusters. If you divide that, on an average five to seven screens are there in each cluster. Each cluster has only one DSA. While a city like Mumbai may have five to ten clusters, one cluster may consist of five small cities or villages or towns where screens are very remote.
- Dheeresh Pathak:** Do we plan to have 650 clusters and 650 DSAs as we have 329 DSAs now?
- Kapil Agarwal:** We have more than 400 clusters but 329 are active. So, half of the capacity is already active.
- Dheeresh Pathak:** You are saying 50% of ad revenues are contributed by Corporate and 50% is contributed by Government. Currently what percentage of Corporate ad revenues is retail?
- Kapil Agarwal:** It is very insignificant.
- Dheeresh Pathak:** Is there a difference between DSA and retail? Do you get retail business through your own field force?
- Ashish Malushte:** There is a very clear distinction between Corporate and Hyperlocal business which is UFO Framez. Hyperlocal is completely through DSA network. On the other hand, Corporate is National, State and Region level.
- Dheeresh Pathak:** As of now you are getting miniscule revenues from Hyperlocal?
- Ashish Malushte:** These are opportunities, which we started tapping from this year in a very systematic manner.
- Moderator:** The next question is from the line of Urmil Shah from IDBI Capital.
- Urmil Shah:** In case of increase in realization, the total increase is in the rack rates or do we charge a premium like what Multiplexes do for blockbusters?
- Kapil Agarwal:** The increase is not in the rack rates, even multiplexes do not increase the rack rates. Rack rates are always pegged very high then you work discounts from the rack rates. At what discount, you sell the inventory, you give a higher discount to annual and long-term clients and then offer a lower discount to the clients who are short-term or movie based or regional or region base or clients who want a particular geography. There are so many moving parts and

permutation and combinations, so there you offer the lesser discount. This quarter, we were able to offer lesser discount to select clients and our effective spot rate was higher.

Urmil Shah: So, we should not be taking this as a base for subsequent quarters and will it be more driven by big movie releases where we should be able to get this kind of rate?

Kapil Agarwal: This is not a trend, it is very specific to this quarter where the inventory utilization went down but the rates went up. We were able to make up part of the inventory utilization going down by increase in the prices, so this is a one-off. Generally, we can see increase in corporate yield by 5% to 7% on an annual basis. We expect to still see that kind of growth.

Moderator: The next question is from the line of Giriraj Daga from KM Visaria Family Trust.

Giriraj Daga: What is break up in the revenue between the State and Central Government?

Ashish Malushte: State was ~25% of the total Government pie.

Giriraj Daga: We were tapping into more number of States, have the number of States increased?

Kapil Agarwal: 3 years ago State Government's revenue was less than 5%. Gradually, we have tapped 19 States and now revenue is ~25% of the overall revenue. Thus, the Government revenue is also seeing growth.

Ashish Malushte: State Government contributed ~25% in Q3, ~15% in Q2 and ~12% in Q1 in line with our efforts that we are tapping more and more State Governments.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Vikash Mantri for his closing comments.

Vikash Mantri: Thank you everybody for participating in the call and Thank you sir for attending the investor queries.

Kapil Agarwal: Thank you everybody.

Moderator: Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

The transcript has been edited for language and grammar; it however may not be a verbatim representation of the call.