



UFO Moviez India Limited
Q4 & FY17 Earnings Conference Call

May 18, 2017



MANAGEMENT:

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ANALYST:

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Moderator: Ladies and gentlemen, good day and welcome to the UFO Moviez India Limited Q4&FY17 Earnings Conference Call hosted by Dolat Capital Markets Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Taurani from Dolat Capital Markets. Thank you and over to you Sir!

Karan Taurani: Good afternoon everybody. We are Dolat Capital are pleased to host the UFO Moviez India Limited Q4&FY17 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, Karan. Greetings everyone and thank you for joining us on UFO Moviez Q4 & FY17 earning call. 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.

In Q4, UFO delivered 6% Y-o-Y growth in total consolidated revenues to ₹1,556 Mn. EBITDA stood at ₹490 Mn, lower by 7.6% compared to a higher base of Q4FY16. EBITDA margin stood at 31.5%. The Company’s PAT grew by 10% to ₹195 Mn.

For the year, total consolidated revenues grew 4.7% to ₹5,989 Mn, while EBITDA and PAT remained flattish.

Caravan Talkies was severely impacted in the second half of the fiscal year due to demonetization. This lowered the consolidated profitability in FY17. Excluding VDSPL, the Company’s Theatrical and Advertising business delivered 9% PAT growth during the year.

Advertisement revenues stood at ₹449 Mn, 3.6% lower compared to a high base of Q4FY16. Also, impact of demonetization continued in Q4FY17. Advertising revenue contributed 29% of total revenues compared to 30% in Q4FY16. The ratio of Government to Corporate contribution stood at 55:45. Advertisement inventory utilization during the quarter stood at 4.40 minutes sold per screen per show compared to 4.70 minutes in Q4FY16.

On a full year basis, Advertisement revenues grew 13.4% to ₹1,790 Mn. Advertisement inventory utilization during the year increased to 4.34 minutes sold per screen per show compared from 4.15 last year.

We closed the financial year with 3,745 advertising screens. Also, we recently entered into a strategic tie up with UMW. Under this tie up, we have acquired exclusive long term advertisement rights from UMW to monetize the inventory on over 300 screens. This will take our advertisement screen strength over 4,000. This tie up is a symbol of the strength of UFO’s advertising platform.

Our Caravan Talkies business was not operational in Q4FY17 due to the adverse impact of demonetization in rural India. Also, our losses in Caravan Talkies have reduced owing to cost optimization initiatives undertaken in the last 2 quarters. As we speak, Caravan has gained good momentum. We are currently operating 47 vans which are breakeven at a van level. This gives us confidence and we believe that Caravan Talkies will contribute meaningfully.

I would also like to highlight that the D Cinema sunset impact on PBT in FY17 stood at ₹60 Mn and is estimated to be about ₹134 Mn in FY18. We believe that this impact will be set off by the enhanced revenue from Caravan Talkies and incremental revenue from Advertising.

UFO Framez, our hyper local advertising initiative is also very promising. In FY17, Framez revenues stood at ₹11.9 Mn and our current weekly run rate is 0.7 to 0.9 Mn. We believe that Framez is gaining good traction and is on the right trajectory to meaningfully contribute to the overall advertisement revenues.

Our Balance sheet continues to remain healthy, as on March 31, 2017, Net Cash stood at ₹718 Mn compared to a Net Debt of ₹24 Mn as on March 31, 2016. The Company's DSOs are under control at 90 days compared to 97 days as on March 31, 2016.

Finally, in line with the Company's capital distribution philosophy of rewarding shareholders, the Board of Directors of the Company has recommended a dividend of ₹10 per share in FY17 compared to ₹8 per share in FY16. As a result, the dividend payout including DDT has increased from 40% last year to 53% in FY17.

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

- Moderator:** The first question is from the line of Urmil Shah from IDBI Capitals.
- Urmil Shah:** On the advertisement revenue outlook for FY18, considering Q1 on a Y-o-Y basis excluding two big movies, the content was not that strong especially when compare to Q4 on a Y-o-Y basis. How should the advertisement growth be in FY18?
- Kapil Agarwal:** We are giving an advertising revenue guidance of 30% growth for the year. We have always guided the market that it is not possible to look at ad revenue on a Q-o-Q basis. You have rightly pointed out that two big movies are lined up in Q1 and overall in current year there are two movies of Salman Khan, i.e.:- 'Tube light' in Q1, 'Tiger Zinda Hai' in Q3 and Aamir Khan's 'Superstar' in Q3. Q2 is also lined up with good movies like Shah Rukh Khan's 'The Ring', Kangana Ranaut's 'Simran', Ranbir Kapoor's 'Jagga Jasoos', Varun Dhawan's 'Judwaa 2' and Sanjay Dutt's 'Bhoomi'. This year is lined up with really good movies. So our overall ad revenue should grow by 30%. In FY17, Q1 grew by 9.5%, Q2 grew by 50% taking our H1FY17 growth to 29.4%. We were on track to achieve 30% ad growth but we were affected by demonetization.
- Urmil Shah:** Can you throw some light on the UMW deal especially on the margin front?
- Kapil Agarwal:** In the UMW deal, we have bought out the entire inventory at a certain cost and margins are not the same. In UFO we have margins between 50% and 60% after theatre share. While here the margins would be in the range of 20% to 25% in the initial period.
- Sanjay Gaikwad:** The margin will be in this range only in the initial period. As the ad revenue starts growing per screen, the margins would also grow because we have bought this inventory at a fixed price.

- Urmil Shah:** Are you indicating a 20% to 25% EBITDA margin on advertisement revenue from UMW screens?
- Kapil Agarwal:** Yes, that will be the margin in the initial period on UMW screens.
- Urmil Shah:** Will the UMW screens start generating ad revenues from Q2FY18?
- Kapil Agarwal:** We are in the process of migration right now. Migration should complete by the end of Q1FY18. Yes, we will start generating revenues from Q2FY18.
- Urmil Shah:** Could you throw some light on Caravan Talkies? You mentioned that 47 vans are currently operational, how will it perform in FY18?
- Kapil Agarwal:** We have overhauled this business completely. We have briefed the market that Caravan Talkies has experienced teething troubles and operational issues in the last few quarters. Currently those issues have been controlled and the vans are operating smoothly.
- Sanjay Gaikwad:** Initially one van used to cover 7 villages, every week one village used to get the movie. We have converted that to 14 villages on one route. This gives a much better coverage to advertisers.
- Kapil Agarwal:** Instead of 7 villages, a van goes to 14 different villages. We are also doing a lot of activation, sampling and research on behalf of the customer to satisfy their needs as the access to such markets is limited. Caravan's Sales team is now integrated with UFO Sales team. There are 60 people selling Caravan as compared to 5 earlier. These 60 people are stationed all across India and the traction is much better now. A much better price is demanded with better offerings and operations. We have 47 operational vans; additional 20 vans will start operating within a week or ten days. So, by the end of this month, we will have 67 operational vans.
- Urmil Shah:** Can you quote the revenue per van?
- Kapil Agarwal:** The revenue per van is better than last year because earlier we could barely recoup the variable operating cost. Now the contribution margin is good and we are breaking even on a van level. But due to monsoons, these vans will not be operational for almost three months. We expect, 90 to 100 vans to be operational from October and hopefully we should be able to sell more.
- Urmil Shah:** Until operational break-even, you won't be incurring additional Capex, right?
- Kapil Agarwal:** The policy decision has been taken. Let's say by the end of June, we have a visibility of 150 vans for October, we will do additional Capex of van during monsoons. We have frozen the Capex completely; we will not do Capex until we see the visibility of selling additional vans.
- Moderator:** The next question is from the line of Vimal Gohil from Union Asset Management Company Pvt. Ltd.

- Vimal Gohil:** Till FY19 there will be de-growth in D-Cinema revenue, how will the revenue be impacted? What will be the impact in FY18 and FY19?
- Ashish Malushte:** Our Q4FY17 earnings call transcript available on exchanges and on our website has the exact detail of how this D-Cinema sunset is going to impact us. Request you to take a look.
- Moderator:** The next question is from the line of Prasad Padala from Investec Capital Services India Private Limited.
- Prasad Padala:** On the advertising front, Government advertising has declined on an absolute basis, is it because of the base effect?
- Ashish Malushte:** Primarily, it is because of the base effect. If you compare Q4FY16 to Q4FY17, Government had significant traction in Q4FY16 and in the initial period of Q4FY17, there was low traction due to demonetization.
- Kapil Agarwal:** On an overall basis, the government ad revenue has grown for the year.
- Prasad Padala:** Are there any sectors which have not recovered from demonetization?
- Kapil Agarwal:** By and large the impact of demonetization has gone. FMCG and Media were the largest contributing sectors. Media sector is coming back on track, apart from that most of the sectors have recovered and are seeing traction.
- Prasad Padala:** How has NOVA Cinemaz performed so far?
- Sanjay Gaikwad:** NOVA Cinemaz is a new business. Initially we guided that it is going to be very slow because this is the creation of new cinemas. We have been continuously working for the last one year towards standardizing the model. We are bringing the whole concept of pre-fabricated buildings in creating cinemas and also working with Government to have single window clearance because that is one area which is affecting the growth of cinemas in India. China is adding 9,000 screens every year where India has a total of 9,000 screens. China has already exceeded 40,000 screens and keeps adding 9,000 screens per year. We are working with both the Central Government and State Government.
- One of our projects near Mumbai will begin its operation by end of this month. NOVA Cinemaz is getting excellent response from all over the country, we are currently sitting on over 150 enquires. NOVA Cinemaz is going to start picking up by the end of FY18 and then you will see growth in the subsequent years.
- Prasad Padala:** On the UMW deal, is there any annual escalation on the fixed amount that you will pay?
- Sanjay Gaikwad:** Yes, there will be a very small annual escalation.
- Moderator:** The next question is from the line of H.Sangameswar Iyer from Subhkam Ventures.
- H.Sangameswar Iyer:** On the 30% ad revenue outlook, what kind of ad minutes assumptions are we taking into consideration?

Kapil Agarwal: There are a lot of initiatives that need to be taken into consideration. On screen as well as off screen activities like activation is part of overall growth guidance. UFO Framez, our hyper local advertising business is also a part of this. All efforts are in this direction through various initiatives. As far as the on screen advertising is concerned, we are currently using 4.34 minutes per screen per show, our effort is to attain volume led growth over value-led growth at the moment. 55% of our business has come from the Government advertising where the pricing is fixed. 55% business in value terms is at a fixed price but the balance 45% sees a lot of variation because of annual deals, which are from long term clients where the price is lower. People who like to advertise only during blockbuster movies, the pricing is far higher and as a result we are seeing 5% to 7% growth in the overall pricing in the last couple of years.

H.Sangameswar Iyer: What is the expectation in terms of minutes per show per ad screen for FY18?

Kapil Agarwal: 30% overall growth guidance comes from various factors and certainly higher minute utilization is also a part of it.

Sanjay Gaikwad: In Q2FY17, the minute utilization was 5.15 minutes, so we were already achieving more than 5 minutes of utilization. But post demonetization, it has dropped. That is why the average is less. We are definitely looking at pushing the inventory without compromising on the price but at the same time we are not trying to increase the price too much at this point.

H.Sangameswar Iyer: In FY17, what was UFO Framez' contribution and going forward how are we looking at it?

Kapil Agarwal: In FY17, the revenue from Framez was very small around ₹1.2 Cr.

H.Sangameswar Iyer: Is it building up now?

Sanjay Gaikwad: We have booked about 60% of last year's revenue in one and a half month.

Kapil Agarwal: There are 600 potential DSAs, out of which 400 are appointed and 200 are active DSAs. Once all DSAs become active, they will start contributing meaningfully. We have already started seeing traction and it will form a part of the 30% growth for FY18.

H.Sangameswar Iyer: UMW's inventory is bought out and once the volumes of advertisement start increasing, the margins will expand beyond 25%. At what volume per show will the margin be around 25% and at what volume and margin will it reach our Company's average margin?

Kapil Agarwal: 55% of the revenue comes from Government Ads. We have 3,745 screens empaneled with DAVP. We have to just empanel UMW's 300 screens and start selling. The revenue from the Government itself will recoup the cost of acquisition, we will have to sell the rest to Corporate clients.

At 25% margin, we have to share revenues with theaters in addition to UMW's share. That is why we will see a 25% margin at least in the first couple of years and as the revenue keeps increasing, the margins will expand because we are

giving them a fixed marginal increase per year. We are hoping that when we start selling these 300 ad theaters, they should bring in the long-term substantial business.

- H.Sangameswar Iyer:** What will be the revenue and fixed cost per van in Caravan Talkies?
- Kapil Agarwal:** Fixed cost has practically reduced to minimum because we have integrated the entire operation of Caravan Talkies. The same UFO Sales team is now selling it which was a separate team earlier. Only the Operation's team is a direct cost now, rest all the costs have been eliminated. Logistics, commercial, procurement, finance and selling costs have been integrated and that is where we will be benefitting from operating leverage. In Q4, our revenue per van has doubled as compared to what we were selling pre-demonetization.
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal:** How many clusters are covered in UFO Framez? How many DSAs have been appointed?
- Kapil Agarwal:** The entire Country is divided into 600 clusters. 400 DSAs are appointed, out of which 200 DSAs are active. Earlier, there were only 130-140 which have increased to 200 active DSAs. There is a lot of churn here. Currently we are focusing on activating the appointed DSAs by offering them various incentive schemes which will enable them to achieve higher numbers.
- Ankur Periwal:** Can you give the timeline when all 600 DSAs will be active?
- Kapil Agarwal:** We should be able to appoint 600 DSAs in the next three quarters.
- Ankur Periwal:** Does the 30% ad growth guidance include UFO Framez and Caravan Talkies or is Caravan Talkies excluded?
- Kapil Agarwal:** Caravan Talkies is included.
- Ankur Periwal:** Currently the base is really small in terms of revenue but incrementally whatever comes from Caravan Talkies, will it be included in 30% growth?
- Kapil Agarwal:** That is what we are guiding as of now. We had our own share of problems with Caravan in the past. In case we see higher traction mid-year, we will revise the guidance.
- Ankur Periwal:** Currently 47 vans are operating in Caravan Talkies and additional 20 vans will be added by next quarter. Can we expect, by end of this year, there would be around 80-90 operational vans?
- Kapil Agarwal:** 47 vans are already operational, by adding another 20 vans, by end of this month there would be 67 operational vans. Out of 100 odd vans, taking ~10% non-operating vans at any given point of time for various operational reasons, we should be able to sell ~90 vans. By the end of next month, we should have visibility of 90 vans. There is early monsoon prediction this year, so there will be no operations running for three months of monsoon. We are hoping to sell the vans by the end

of next month. In Q3, all vans should be operational and hopefully we should see traction to add more vans. We will open up the Capex to add 10, 20 or 50 vans depending on the traction because we have now also applied for DAVP empanelment. Government is potentially a very large buyer. The application is in the process and if it hits, we may actually add 100 vans overnight. We will use the monsoon period to gauge the traction. As of now we are not giving a higher guidance on ad revenue including Caravan Talkies because Government's DAVP empanelment may come in one or six months or by the end of this year.

Ankur Periwal: When you mentioned visibility of advertisement revenue especially for Caravan, what is the lag we are looking at, is it one or three months?

Kapil Agarwal: It is around two to three weeks. Once the visibility is given, clients have to prepare their art work and external branding which might take a lot of time. Then we produce it and set the route which approximately takes two to three weeks.

Ankur Periwal: Would you like to share any number on Capex?

Kapil Agarwal: The Capex is ₹50 to ₹75 Cr. We are trying to upgrade our current projectors into better grade and quality. This year, there might a slight increase in the Capex which can either be a three or five year program depending on the cash flow position.

Ankur Periwal: Are non-DCI equipment getting converted into DCI equipment?

Kapil Agarwal: Only the projectors are being replaced. Satellite delivery is very important for the growth of advertising business. The DCI projectors are built with high brightness and quality. We are just replacing the projectors with DCI projectors, our non-DCI server stays at the back end connected to the DCI projector.

Ankur Periwal: These won't be DCI equipment but an upgraded version of non-DCI?

Kapil Agarwal: It will be a DCI projector and a non-DCI server.

Ankur Periwal: Is this for satellite connectivity?

Kapil Agarwal: The projector is only an output device but the intelligence lies in the software which is the server, which gives satellite connectivity. Non-DCI server has our technology which enables satellite delivery. UFO-M4 technology compression is much higher than that of DCI. The DCI file is very large which cannot deliver movie content through satellite.

Ankur Periwal: What is the approximate Capex?

Kapil Agarwal: It may go up to ₹75 Cr because we will be installing better projectors upfront. We have to assess all our cinemas. As we speak, the exercise is going on and in another couple of weeks, we will be through with that exercise. Therefore, we are looking at a Capex between ₹50 to ₹75 Cr.

Moderator: The next question is from the line of Tejal Shah from Reliance Nippon Life Insurance Co. Ltd.

- Tejal Shah:** Can you give any update on the DAVP rates? Are there any chances of increase in the yield this year?
- Kapil Agarwal:** We have been campaigning with the Government for the past three to four years. As it is beyond our control, it might happen in one month or say one year, we really cannot comment on this.
- Tejal Shah:** What is the difference in yield currently between the Government and Corporate segment?
- Kapil Agarwal:** The net yield is almost the same on both the sectors on an average basis. The Government yield remains constant on a per minute basis. The Corporate yield varies a lot for annual client. The average pricing may differ from an advertiser who is movie specific. On an annual basis, 5% to 10% plus minus but it is almost there on a per minute basis.
- Moderator:** The next question is from the line of Neeta Khilnani from B&K Securities.
- Neeta Khilnani:** Our ad screens have really not grown in the past three years. Do we always look for acquisitions to grow the numbers of screens?
- Kapil Agarwal:** Our Country is saturated and the market is completely divided. There is slow organic growth but we are also looking at inorganic. We have just added over 300 UMW screens. By end of the next quarter, there would be around 4,000 instead of 3,745 screens.
- Tejal Shah:** Will the screen addition happen organically?
- Kapil Agarwal:** We will grow inorganically until and unless our NOVA Cinemaz program kicks in which will take one year. Then we will see rapid organic growth like we witnessed in the first 10 years. We have invested ten years in achieving 100% digitization. In next five to seven years, we want to focus on the screen growth since India is an under-screened Country. We are going to do this through our franchisee model NOVA Cinemaz.
- Tejal Shah:** In terms of ad revenue mix between Government and Corporate, does it have any implication on the margins because despite the change in mix, on a consolidated basis, everything else remaining the same, the margins are more or less is around 30%?
- Kapil Agarwal:** The pricing of Government and Corporate on an average is within 5-10%, it is not high but as more monetization happens, Government will remain fixed. If DAVP revises the rate, then value led growth will be visible. Once inventory utilization is high, we will start witnessing value based growth instead of volume growth because then we can command a higher price and that is where you will see much higher pricing in Corporate sector while the Government will remain fixed.
- Tejal Shah:** Out of the 30% ad growth, what will be the on screen advertisement revenue growth?
- Kapil Agarwal:** We are not only looking at the on screen advertising but also at the overall growth in the revenue. Activation and Caravan is part of this. When we go to a client, we sell him on screen and activation, clients are more interested in doing activation

along with onscreen ads. We do not distinguish between the clients. We have to see the stickiness of the clients, that whether the client is coming back and we are able to extract higher revenue from their wallet to grow. We have also bundled Caravan into the same pocket so it does not really matter from where the growth is coming. We have to attain all of this to get 30% growth.

- Tejal Shah:** What kind of advertisers are interested in Caravan Talkies?
- Kapil Agarwal:** Advertisers who are interested in rural marketing like FMCG companies such as ITC are interested in advertising on Caravan Talkies. A lot of mobile companies want to sell low cost mobiles in rural markets.
- Moderator:** The next question is from the line of Yash Jhaveri from Alder Capital LLC.
- Yash Jhaveri:** With respect to the UMW deal, can you tell us where these 300 screens are located? If you can give the break up in terms of top 50 cities and rest of India?
- Kapil Agarwal:** These screens are majorly present in West Bengal, Bihar, Odisha, Gujarat and Maharashtra in the eastern region. Some screens are also present in Andhra Pradesh and Tamil Nadu in south India.
- Yash Jhaveri:** Are these mainly in top cities or smaller towns?
- Kapil Agarwal:** Some screens are actually good screens which are going to help us sell our other screens. UMW in the competitive era took away some of our good screens by making free offerings in the market, which was actually not viable. That is why we did not prevent them and let them take it away. We understand the economics of the business. They took our good screens as well as screens from our competitors, those screens are now getting added to our ad network. All screens are not in metro cities or top cities but there are a lot of screens which are present in places like Patna and Ranchi which are very useful to us.
- Yash Jhaveri:** Is there any Capex beside what you pay them to purchase inventory in terms of replacing of equipment?
- Kapil Agarwal:** Yes, there is Capex. Capex is very small, which is only a server. The projectors are installed by UMW. We are not touching projectors, so we are not incurring any projector Capex. They continue to manage the theatre. They continue to manage their agreements and pricing, we are only changing the server so our Capex is only towards servers but we are recovering the Capex from them in the deal. That additional Capex of this kind of deal will also get plugged into the current year's Capex but it is fully recoverable on an annual basis.
- Yash Jhaveri:** What does the Capex of ₹50 to ₹75 Cr for FY18 include?
- Kapil Agarwal:** ₹50 to ₹75 Cr will include replacement of projectors. If new screens are coming up, we will also have additional capex because of new screens. New screens are always welcome, we don't mind doing additional Capex on new screens because they adds to the long-term goal of our Company

- Yash Jhaveri:** What is the current interest cost?
- Ashish Malushte:** ICRA has upgraded the rating by one notch to AA-. Last year the rate of interest was in the range of 10%+ and as we speak, it has come down in the range of 9.25% to 9.45%.
- Yash Jhaveri:** The finance cost based on this number should be about ₹5 Cr, can you explain the difference?
- Ashish Malushte:** If you apply the new rate for the current year, we will get a similar finance cost. If you apply it on the average rate of interest then you will get the same amount as shown in the financials. Gross debt at the end of the year was ₹84 Cr and at the end of previous year it was ₹104 Cr. The average gross debt is in the range of ₹90 Cr and slightly above and if you apply the rate of interest, you will get the total interest cost.
- Moderator:** The next question is from the line of Urmil Shah from IDBI Capital.
- Urmil Shah:** The weekly revenue run rate of UFO Framez is ₹0.7 Mn to ₹0.9 Mn, we hope this is a steady state range and is not having the benefit of Baahubali 2?
- Ashish Malushte:** You are right. This is a steady state range. We are expecting that it will pick up from here and it is not just because of Baahubali 2.
- Urmil Shah:** On the UMW deal, what is the time by which 300 screens can reach the utilization that UFO is doing on its own screens?
- Kapil Agarwal:** Government will get plugged in immediately in about 3 months. You will get empaneled to 4,000 screens instead of 3,745 screens. That business will start flowing immediately and Corporate business will also start flowing immediately but the buildup of the Corporate business will take little time.
- Urmil Shah:** Is UMW doing some advertisement revenue or is their utilization zero?
- Kapil Agarwal:** Yes, they are doing the advertisement revenue, but selling advertisements of theatres is a very specialized business and moreover national clients are not going to deal for 200 and 300 screens. We are selling a massive 3,700 odd screens, so clients get a complete solution. Currently UMW's ad revenues are very small and that is the reason they have tied up with us.
- Urmil Shah:** Thank you so much and all the best and it was good to see a higher dividend payout.
- Kapil Agarwal:** The dividend has increased from 80% to 100%. We have distributed 53% of PAT as dividend after dividend distribution tax. We got a lot of suggestions on buyback, but we could not even consider it as we are in the process of merging UFO with wholly owned subsidiaries, so we were not allowed to do any buyback, not that we would have done it or not done it. The only option to reward shareholders was by giving higher dividend.
- Moderator:** The next question is from the line of Rohit Dokania from IDFC Securities.
- Rohit Dokania:** In February you said that we will grow the advertisement revenue by 20% for FY17 but the growth has come to 13.4%. What has really impacted us in Q4FY17?

- Kapil Agarwal:** Caravan Talkies was impacted majorly. Caravan operated zero vans in Q4. We were hoping that Caravan would also slowly start picking up like UFO ad revenues. All Companies trying to sell in rural markets withdrew campaigns. They believed that rural market was affected much more as people did not have any buying power. Thus all marketing activities in rural region stopped which impacted us.
- Rohit Dokania:** In case of Caravan Talkies, is the business scalable and would it be that large?
- Kapil Agarwal:** Caravan Talkies could be potentially a very large business. We have already sold 67 vans.
- Rohit Dokania:** As you spoke about 30% ad growth in FY18, does it include the UMW deal?
- Kapil Agarwal:** Yes, it includes UMW screens also.
- Moderator:** The next question is from the line of Viral Desai from Equirus Securities Pvt. Ltd.
- Viral Desai:** What is the advertising split in rural and urban areas? What is the current geographical split for 4,000 screens?
- Ashish Malushte:** If you refer to the Earnings Presentation, there is a separate section for advertisement and you will get the split primarily in two parts. One is top 50 cities and the other is rest of India, each of these is further sub-divided into single and multiplex screens.
- Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investment Managers Pvt. Ltd.
- Pritesh Chheda:** You have generated about 13% ad growth and looking at your reconciliation slide where you have reconciled the numbers ex-VDSPL. With 13% ad growth typically one would look at leverage factor playing out in the EBITDA growth but it does not come, has any cost heads or revenue heads other than ad growth behaved differently? Caravan Talkies reported ₹8 Cr EBITDA loss for FY17 and ₹17 Cr PAT loss for FY17, this is 20% of your profit number i.e. ₹80 Cr excluding VDSPL. We would like to know the corresponding capital employed on Caravan Talkies and how do you see the loss number shaping up over the next two years and the strategy for the next two years?
- Ashish Malushte:** Ad revenue has significantly higher EBITDA contribution however, ad revenue growth this year was slightly lower because of demonetization. The fixed cost element was evident in Q1 and Q2 and that is a committed cost which continues. The manpower and SG&A cost committed had to happen in the whole year plus sunset on D Cinema revenue had an impact of ₹6 Cr on PBT last year also panned out the way we had explained. These are the two primary reasons why the leverage, which we should have otherwise generated out of advertisement revenue growth, could not get reflected in the numbers. Had the ad revenue been significantly higher than these fixed elements, the incremental number would be visible in profitability.
- Pritesh Chheda:** Are there any other cost heads, which are different than what you initially estimated?
- Ashish Malushte:** On the cost front everything has gone on at the same lines as we have been guiding the market. The only differentiating factor has been ad revenue growth and Caravan business especially after November 10, 2016.
- Ashish Malushte:** The capital employed on Caravan business includes the absorption of accumulated losses of about ₹40 Cr.

- Pritesh Chheda:** That is less than 10% of your balance sheet?
- Ashish Malushte:** That is correct.
- Kapil Agarwal:** There is a ₹17 Cr PAT loss and ₹8 Cr EBITDA loss this year. It is because most of the vans were non-operational. Going forward in this year, on just the existing van operations, it will be contributing positively to EBITDA and the net loss will substantially reduced if we operate the 100 vans which we currently have. We have also applied for DAVP empanelment and if we get the empanelment, this number will dramatically change. We will guide the market by next quarter as the position becomes clearer.
- Pritesh Chheda:** The empanelment you are referring to is Government approval, right?
- Kapil Agarwal:** Yes, Central Government business does not come to you unless or until Directorate of Advertising & Visual Publicity (DAVP) does the empanelment. UFO's digital cinema business has been empaneled and similarly now we are putting efforts by talking to various Government departments and this is a perfect fit for various Government schemes because they really need to go to the masses in the rural areas and not the classes. All the Government departments are very keen but until and unless Caravan receives the DAVP empanelment, the rate will not be fixed and nobody can give you business.
- Pritesh Chheda:** Inventory of 300 UMW screens has been bought, have you paid a flat price for the entire 15 to 20 minute of inventory and is that the reason margins will expand when the usage goes up or is the contracting differential?
- Kapil Agarwal:** Contracting is on a fixed price on a per screen basis. There are some good screens, some rural screens; we have averaged out the price.
- Pritesh Chheda:** Have you bought the whole inventory?
- Kapil Agarwal:** 100% of the inventory on an exclusive basis of all the theatres will be sold by us post migration.
- Pritesh Chheda:** Have you given them a fixed price already for that inventory purchase?
- Kapil Agarwal:** We will give them a fixed price from the date it becomes operational.
- Pritesh Chheda:** This means that as you start using the minutes, the operating leverage will be seen on the UMW screens as the share is fixed, is that the reason margins will move up from 25%?
- Kapil Agarwal:** That is correct.
- Pritesh Chheda:** What was the usage of the cash flow in FY17?
- Kapil Agarwal:** In FY17, we continued our policy of returning cash to the shareholders in the form of dividend. Obvious use of the cash remains rewarding the shareholder.
- Pritesh Chheda:** When do you think the Government rates on cinema advertising will increase and by when will Caravan get empaneled with DAVP?

Kapil Agarwal: We are really putting in a lot of effort and it should have happened. Everything has been done including paperwork with the Government. But the decision taking is not happening. Even if rates are revised, the budget does not change as they have to play within their budget. They will not be able to spend more on this medium until the next year's budget is allocated. We are very hopeful that Caravan Talkies empanelment with DAVP might happen because the Government really wants to reach the rural masses for various programs of the Government of India and they find this medium very effective. The Government is supporting this medium but there are processes and procedures within the Government which takes a lot of time.

Pritesh Chheda: FY17 saw 13% ad growth but you said certain costs are inflationary in nature. Is there budgeting on cost that we have done this year and any inflation number you are looking at? Are you looking forward to tightening cost?

Ashish Malushte: Budgeting has been part of the process in UFO, so budgeting happens every year and that is how we are in a position to give guidance in the beginning of the year. As far as the fixed costs are concerned, the fixed cost are broadly divided into buckets, manpower related cost and SG&A cost. There is an active assessment done in terms of how best to optimize these costs and we keep trying to figure out how best we can optimize costs. These efforts have been on ever since UFO has been actively into operations, because UFO was driven by Private Equity investors at a Board level. These costs have always been under control. As far as the estimation is concerned, the SG&A and manpower cost ranges from 8% to 11% on different heads where the costs would go up.

Pritesh Chheda: So, should one not consider that 8% to 11% ad growth will not have leverage?

Ashish Malushte: No, the pie of the ad revenue would keep growing and correspondingly, the pie of SG&A and manpower cost may not grow in the same proportion.

Moderator: The next question is from the line of H. Sangameswar Iyer from Subhkam Ventures.

H. Sangameswar Iyer: In your initial comment you spoke about couple of projects undertaken near Mumbai which would begin by end of this year. Can you just throw some light in terms of number of screens you are working on? As per the Uttar Pradesh Chief Minister, they want to reopen 750 odd screens which have shutdown, is there any opportunity there or has the UP Government initiated any discussion?

Kapil Agarwal: The screen near Mumbai is in Karjat. This screen is becoming operational in the next couple of weeks with the release of 'Sachin: A Billion Dreams'. Three other cinemas are under construction right now. We want to showcase four to five cinema locations where NOVA Cinemas will be operational. This is a vision that we are putting in the pipeline for the long-term future of the Company.

As far as the UP Government's 700 screens are concerned, we have been studying these screens and what we found is that a lot of screens have permanently shut down, lot of real estate has been put to alternate use and the possibility of them coming back into business of cinema does not exist. The Government's data suggests that 700 screens over a period of time shut down but it does not mention that they have permanently shut down. We are currently collecting the data and working on it, right now it is too early to say what will happen.

H. Sangameswar Iyer: Where would revenues from NOVA Cinemas be classified?

Kapil Agarwal: The cinema is owned by somebody else, we are not stepping into the shoes of the exhibitor. UFO will have two hats there. One hat is the NOVA Cinemaz where we help them put up the Cinema. We will help them source all the material and design the cinema. We charge a small royalty from them once it becomes operational. This royalty income will be classified under a suitable head depending on its materiality. The second hat is of our major interest, UFO Moviez grows if we add 500, 1,000 or 2,000 screens over next few years as they get added into our digital cinema network. There our deal is exactly what we offer to other clients, we give the digital cinema equipment, we take the advertising rights, thus organic growth of UFO also happens and that is basically our major objective in getting into this project.

H. Sangameswar Iyer: How long does it take for execution to the final commercialization?

Kapil Agarwal: We are looking at prefabricating structures. Construction takes a lot of time, we are now in the final stage of finalizing the prefabricated structure. With prefabricated structures, construction is very easy and fast. It will take anywhere between three to four months while normal construction takes six to eight months.

H. Sangameswar Iyer: Will all the five projects be ready by H2FY18?

Kapil Agarwal: Yes.

H. Sangameswar Iyer: So post that only the other 150 odd screens which are at enquiry stage could actually see some light?

Kapil Agarwal: I would not go that far. It is a simultaneous process. We may have a lot of projects, which may start by end of this year. It is not sequential that we are waiting just for these projects to get completed. By end of this year, we may have another 10 to 20 projects under construction.

H. Sangameswar Iyer: Is this the reason the sale of products increases?

Kapil Agarwal: We do not sell products under NOVA Cinemaz. The digital cinema we provide is at our cost and in lieu of that we charge a virtual print fee (VPF) from the distributor when a movie releases. We charge lease rental from the exhibitor. These are our two steady streams of revenues and we take the exclusive advertising rights. It is not the sale of products.

H. Sangameswar Iyer: For the next year's revenue mix we will have higher component of higher margin advertising revenue. Will the losses from Caravan reduce significantly in next financial year at the PAT level? Will the whole things actually have a bigger impact on profitability?

Kapil Agarwal: Absolutely, that is exactly what we are looking for.

Ashish Malushte: At the same time, we need to keep in mind the planned sunset loss that we are going to have in D Cinema that is going to take some portion from the EBITDA. When you are trying to figure out the contribution of advertisement flowing into the ultimate EBITDA, this same loss needs to be taken care of in your calculation.

Moderator: The next question is from the line of Nirlon Dave, an Individual Investor.

Nirlon Dave: Can you throw some light on why the promoter stake is decreasing Q-o-Q slightly? And is there any impact of Karnataka Government price cap on your ad revenue?

- Kapil Agarwal:** Promoter stake is exactly the same since IPO. Not one share has been sold. New shares were issued to the employees by way of ESOPs, that might have slightly diluted but number of shares which they are holding is exactly the same. With regards to the Karnataka Government price cap, the ticket price in any state does not affect our advertising business.
- Moderator:** The next question is from the line of Ronak Shah from SJC Capital.
- Ronak Shah:** As you mentioned, ₹0.7 Mn to ₹0.9 Mn comes from the weekly Framez business, is that a net or a gross number, does it include commission you pay to agents?
- Ashish Malushte:** We bill the DSA at a fixed rate which flows directly into our ad revenues which is net, there is no commission. The DSA in turns bills the end customer and makes a margin over and above what we bill him or her.
- Moderator:** Ladies and gentlemen, on behalf of Dolat Capital Markets, 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.