UFO Moviez India Limited
Q1FY25 Earnings Conference Call

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SR. ANALYST:

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Moderator: Ladies and gentlemen, good day, and welcome to the UFO Moviez India Limited Q1FY25 earnings conference call hosted by Ventura Securities 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 the conference call please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Tushar from Ventura Securities Ltd. Thank you and over to you, Sir.

Tushar Pendharkar: Thank you. Good day, ladies and gentlemen. On behalf of Ventura Securities Ltd, I welcome you all to the Q1FY25 earnings call of UFO Moviez India Limited. The company today is represented by Mr. Rajesh Mishra, Executive Director and Group CEO of the company, and Mr. Ashish Malushte, Chief Financial Officer of the company. I would now like to hand over the call to Mr. Mishra for opening remarks, post which we can open the floor for Q&A. Thank you and over to you Sir.

Rajesh Mishra: Thank you, Tushar. Greetings everyone and thank you all for joining our Q1FY25 earnings conference call.

Q1FY25 had a slow start, due to the general elections campaign in April and May and a lower number of movie releases. During the quarter, 476 movies were released (including different versions/languages), compared to 581 in Q1FY24 and 550 in Q4FY24, reflecting an 18% decline year-over-year and a 13% decline quarter-over-quarter.

The quarter started with the underperformance of movies such as “Bade Miyan Chote Miyan" (featuring Akshay Kumar & Tiger Shroff), “Maidaan" (featuring Ajay Devgn), and “The Family Star" (featuring Vijay Deverakonda) in April. This was followed by the modest reception of films such as “Srikanth" and “Mr. and Mrs. Mahi" (both featuring Rajkumar Rao) in May. However, June turned out to be a better month, with a sleeper hit like “Munjya" (featuring Abhay Verma & Sharvari Wagh) performing well without any A-list star cast, alongside successes such as “Maharaja" (featuring Vijay Sethupathi & Anurag Kashyap), and “Chandu Champion" (featuring Kartik Aryan). This was followed by the big-budget release of “Kalki 2898 AD" (featuring Prabhas & Amitabh Bachchan) on 27th June 2024, right at the end of the quarter.

Overall, the underperformance of tent-pole films and the lack of successful content during the first two months negatively impacted the quarter's results, affecting advertisement and theatrical revenue. Advertisement revenue for the quarter stood at INR 219 mn compared to INR 235 mn in Q1FY24. Corporate advertisement revenue contributed INR 160 mn compared to INR 182 mn in Q1FY24, while revenue from the Government grew by 55%, from INR 38 mn in Q1FY24 to INR 59 mn in Q1FY25.

The theatrical revenues for the quarter was INR 240 mn in Q1FY25, compared to INR 248 mn in Q1FY24. While both theatrical and advertisement revenue experienced a modest decline, revenues from exhibitors grew by 39%, from INR 318 mn in Q1FY24 to INR 443 mn in Q1FY25.

On the screen network front, our advertisement screen network grew to 3,769 as of June 30, 2024, compared to 3,234 as of June 30, 2023, marking a 17% year-over-year increase with the addition of 535 advertisement screens. However, there was a slight 2% decline quarter-over-quarter.

Now, moving to the headline numbers for the quarter ended June 30, 2024:

- Consolidated revenue for Q1FY25 was INR 945 million, up from INR 853 million in Q1FY24.
- EBITDA for the quarter stood at INR 66 mn, compared to INR 163 mn in Q1FY24.
- Net loss of INR 42 mn in Q1FY25, compared to a Net profit of INR 25 mn in Q1FY24.

Regarding the consolidated funds position, the balance at the end of the quarter stood at INR 1,066 mn. As of June 30, 2024, the company continues to be net cash positive, even after considering outstanding debt.

Looking ahead, with the continued success of 'Kalki 2898 AD' in July and an exciting lineup of upcoming releases across languages, including 'Auron Main Kahan Dum Tha,' 'Stree 2,' 'Vedaa,' 'Khel Khel Mein,' 'The Goat,' 'Devara,' 'Joker,' 'Vettiyan,' 'Deva,' 'Bhool Bhulaiyaa 3,''Singham again,' 'Sitare Zameer par, and 'Pushpa 2,' we are hopeful for a positive turnaround in the coming quarters.

I would like to take this opportunity to thank all our stakeholders for their continued trust in the company.

With that, I open the floor to take your questions. My colleague, Mr. Ashish Malushte, CFO, and I will be happy to take your questions.

Moderator: First question is from Ankit Kanodia. Please go ahead.

Ankit Kanodia: Thank you for taking my question. Before I begin, I'd like to thank you for including the split between multiplex and single screen as we discussed in the last call. Really appreciate it. So, my first question is related to that. With roughly 2,100 multiplex screens and about 1,700 single screens, could you provide a breakdown of how the revenue is split between the two?

Ashish Malushte: We have two main revenue streams: content delivery charges (CDC) and advertisements. For CDC, our fees are based on the number of shows played and the age of the film. For Hindi films, charges apply only for the first two weeks, with no charges thereafter. For regional films, we charge higher amounts during the initial weeks. Generally, the number of movies played per screen in multiplexes are higher than single screens, making multiplexes a better unit for CDC revenue. For example, a single screen is running, say 30-35 movies a year, a multiplex per screen may run 45-50 movies a year. This difference means multiplexes generate more CDC revenue, despite having the same service fee rate.

Regarding advertisements, we primarily operate on a network sales model, offering the entire network to advertisers targeting specific regions. For example, if an advertiser targets a specific region like Mumbai, Karnataka or the Hindi-speaking market, we offer our entire network as per the target. The rates are charged accordingly and it is uniform across all screens.

Multiplexes are the critical screens driving advertisers to our network. When billing, we use a network rate, so each screen in the network is billed the same. This makes the billing generated from multiplexes and single screens appear similar. However, since multiplexes run more shows, they also run more advertisements, leading to higher billing overall.

Being the key driver of business, this does not fully represent the potential of multiplexes. If we were to sell only multiplexes, they would achieve much higher rates. But since we utilize a network sales model, the rates are consistent across both multiplex and single screens. This is how our business operates. If you need any further information, let us know.

Ankit Kanodia: That was extremely helpful. From what I understand, the trend since COVID has been an increase in multiplex screens compared to single screens in our total network. This trend should positively impact our ad revenues, correct?

Ashish Malushte: Absolutely. Nowadays, most new screens are multiplexes, and each requires a service provider. As we compete for these new opportunities, they are predominantly multiplexes. Consequently, the proportion of multiplexes in our portfolio will continue to increase relative to single screens.

Rajesh Mishra: While Ashish's points are spot on, it's important to remember that single screens offer a larger regional reach and higher seating capacities, often accommodating 700-800 seats compared to 150-200 in multiplexes. This makes single screens valuable to advertisers and an important part of the mix. However, multiplexes will remain the primary drivers.

Ankit Kanodia: Got it, sir. That was very helpful. Moving on, as discussed in the last call, our business is significantly driven by the number of movie releases, even when blockbusters are scarce. Last quarter, we saw nearly 500 movie releases, but this quarter's number is much lower, as mentioned in your opening remarks. This variability is beyond our control and poses a long-term challenge to our business model.

Given this, does the management consider strategies to address this issue? Specifically, are there ways to enhance revenue from a long-term perspective, even in quarters with fewer releases? Quarterly adjustments may not be sustainable, so are there any longer-term strategies being considered?

Rajesh Mishra: You're right. It is important to remember that film is a seasonal business. What holds true for Q1 may not apply to Q2 or Q3, which are typically better quarters for film releases due to festive seasons or around Christmas. Typically, Q2 and Q3 are stronger for releases, while Q4 works on trends, in advertising side or the government front.

This quarter was uniquely affected by factors such as election results and the IPL. These factors are unlikely to impact Q1 of next year, which is expected to see a better lineup of releases. While the business is closely linked to the number of releases and their success, it is seasonal and doesn't follow a linear trend from Q1 to Q4.

Ashish Malushte: So Ankit, if you look at what has really affected the performance of the exhibition business this quarter, including us as a service provider, it's not just the reduction in the number of films. While the reduction in releases is a factor, our business is network-based, meaning we monetize our network as long as movies are running in theaters. So, fewer movies don't directly mean that shows have completely stopped in any theater. There is a reduction, but it's not directly proportional. For example, a 20% decrease in movie releases this quarter compared to the last doesn't mean that 20% of theaters closed or 20% of shows didn't run.

However, with fewer movies being released, the proportion of new films decreases, leading to a decline in CDC revenue. But more than this, the bigger impact is from the underperformance of movies. When this happens, even though shows are running with old films or the same films throughout the quarter, advertisers don't return with the same intensity. This affects revenue more than the reduction in the number of films. In this quarter, we had high expectations for three major movies in April, but they didn't perform well. This underperformance hurt advertising potential and actual revenue significantly.

Ankit Kanodia: There is a noticeable trend where many high-quality movies are not performing well at the box office, possibly because audiences are opting to wait for these films on OTT platforms. For instance, movies like Laapataa Ladies and Srikanth recently. Many people chose to watch these films on OTT, but for a movie like Kalki, which offers a unique cinematic experience with special effects, tend to draw audiences to theaters. Do you think there is a risk that people will increasingly visit theaters only for films with distinctive cinematic elements that cannot be replicated at home or on OTT? As a result, they might skip other well-made movies, knowing they can watch them at home in a month. It would be great to hear your thoughts on this.

Rajesh Mishra: Yes, to see this clearly, let's look at the last quarter. Film like Munjya, with a relatively new cast and the horror genre, exceeded INR 100 crore in revenue. Similarly, smaller films such as Laapataa Ladies, Crew, and Article 370, despite lacking big star casts and big production set ups, still

attracted audiences. This indicates that the film business remains robust. However, smaller films without significant buzz or star cast or production values, tend not to have a wider release.

I view this as a positive trend. When two Rajkumar Rao films perform well in a short period and a new star cast film succeeds in cinemas, it's encouraging. Although these films will eventually be available on OTT platforms, there's typically an 8-week delay for Hindi films, which encourages people to watch them in theaters. Also, it's very heartening to see such type of films performing well because that increases your total pie of good films and drives footfall.

Furthermore, there's another healthy trend where South Indian films are gaining more acceptance in the North market, particularly in dubbed versions. These films are finding a strong audience as well. While big films like Kalki naturally have a distinct appeal due to their cinematic experience, it's not an either-or situation. A good film will find its audience.

Moderator: Thank you. Next question comes from Niteen Dharmawat from Aurum Capital. Please go ahead.

Niteen Dharmawat: I'd like to understand the reasons behind the significant increase in our expenses. Are these higher costs expected to be recurring, or do we anticipate better control over them in the future, particularly with regard to the recent expenditure on digital equipment? Additionally, could you provide insights into how EBITDA is projected to perform in the upcoming quarters?

Ashish Malushte: Your observation is correct that overall expenses have increased this quarter, but the single largest contributor to this rise is the cost associated with the sale of products. Our revenue from product sales has grown by 84%, from INR 14 crores last year to INR 26.5 crores this quarter, carrying an operating margin of approximately 20-22%. Correspondingly, the cost of purchased goods has also gone up.

To provide a clearer perspective, total expenses have increased by around INR 18-18.5 crores, of which nearly INR 9 crores is attributed to the purchase of equipment. However, it's important to note that the net revenue generated from product sales this quarter is higher than in Q1FY24. Therefore, it's more accurate to consider product sales revenue net of costs, as this offers a clearer picture since it's essentially a trading business—you buy and sell. This increase in expenses should not be a concern; in fact, it's a positive sign because higher expenses here mean higher margins and realizations, which we have seen this quarter as well.

Another significant expense increase is in the advertisement share, which has gone up partly due to our strategic acquisition of the TSR network in the South. As discussed in previous calls, this acquisition was substantial, and we mentioned that it would take 2-3 quarters for full integration. The cost associated with TSR is around INR 3.3 crores per quarter. This cost will be present for a couple of quarters, but the corresponding revenue may not fully materialize yet.

To address your concern about expenses: out of the INR 18 crores increase, more than half is due to the cost of goods sold (INR 9 crores), while another INR 6 crores attributed to the increase in advertisement share, of which INR 3.3 crores is related to TSR. Both of these increases are positive for the business, as they directly contribute to revenue potential.

Additionally, I want to highlight that we've been very cautious with SG&A and employee costs since the pandemic. SG&A has only seen a marginal 2% YoY increase, and employee benefits have risen by 14%. Although this 14% might seem high, it's due to last year's adjustment in our payout structure, where we converted 20% of fixed salaries into variable pay. This year, some normalization occurred, leading to the increase.

So, SG&A and employee costs are the two areas to keep a track on and those are under check. The rise in direct operating expenses is actually a healthy sign, as they will contribute directly to our revenue.

Niteen Dharmawat: I understand. We also announced a partnership last quarter. Will this impact our expenses in the upcoming quarter?

Ashish Malushte: In terms of costs, no. The partnership is a revenue-sharing arrangement, so there won't be any additional expenses. There's no fixed commitment from the company in this business arrangement.

Niteen Dharmawat: My next question is about advertisement revenue. In previous quarters, we faced significant challenges with revenue from the government sector and PSUs. Has there been any improvement this quarter? Is the increase in revenue mainly coming from PSUs, or are we also seeing contributions from the central government? And how sustainable do you think this revenue will be going forward?

Ashish Malushte: Yes, the challenges with central government allocations for cinema networks persist. We haven't received meaningful revenue from them this quarter. Given the election period, even regular spending by the central government would have been low, making this a particularly dry quarter for central government funds. Currently, we don't anticipate significant changes in allocations by the ministries. We'll likely have to wait until the new government is fully established to see if there are any shifts in their approach.

For the past seven quarters, we've operated under the assumption that the central government might not prioritize cinema network spending. As a result, we've redirected our focus towards other sources, particularly corporate, retail, and state governments. While state government spending was also lower this quarter due to elections, political parties still see cinema as an effective medium for their campaigns. This quarter, we generated about INR 4 crores from political advertisements.

This indicates that political parties value cinema as a medium for reaching voters. Our expectation is that, once in power, these parties might also consider it for their regular spending. However, central government allocations remain uncertain, so we've successfully shifted our focus to alternative sources like state governments.

Moderator: The next question is from Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: Could you provide some guidance on how revenue from other business segments might evolve over the next two years? We have a general idea for FY25, but it's largely dependent on central government allocations. What's your outlook for advertising revenue in the next two years?

Rajesh Mishra: Regarding government advertising, including central, state governments, and PSUs, as Ashish mentioned, central government allocations remain under a cloud. However, we are shifting our focus towards state governments, which have their own independent budgets and are showing positive traction. We will continue to engage with these areas.

For corporate advertising, we have a strong lineup of films that should drive revenue in this sector. Additionally, our recent tie-up for South screens has increased our network strength there. As mentioned earlier, our overall product mix is improving with the addition of more multiplex screens. Given these factors, we expect to see significant traction in the next two quarters and after that.

Moderator: Next question comes from Aditya Karanth, an Individual Investor. Please go ahead.

Aditya Karanth: I'd like to follow up on the advertising revenue share, which is currently at 85%. You mentioned that this increase is partly due to the addition of 500 screens, representing 15% of the total 3,000 screens. However, with the revenue share at 85%, it seems like the business is effectively running at no profit.

Could you explain the timing issue you mentioned? Specifically, could you break down the advertising share revenue excluding TSR, and explain how the additional 15% screens are affecting the overall revenue? Also, could you clarify what the normalized revenue picture looks like and when we can expect revenue from TSR to begin impacting the overall figures?

Ashish Malushte: To simplify, let's break it down: The INR 5.9 crore increase in advertisement share includes nearly INR 3 crore from TSR. TSR is not based on revenue sharing but on a fixed commitment for their screens. By integrating these screens into our network quickly, the fixed commitment is covered by the higher revenue generated. So when we say revenue share paid, in case of TSR, it is not percentage of revenue but a fixed fee predominantly that we are paying.

As discussed earlier, our multiplex network of ~2,000 screens adds significant value to our ad network but comes with associated costs. For single screens or lower-end multiplexes, we typically use a revenue-sharing arrangement, where we give around, let's say, 25% of earnings. This arrangement helps maintain consistency in revenue share percentages, avoiding fluctuations where sharing might be higher in one quarter and lower in another.

However, when it comes to larger multiplexes, some key chains often command a higher fixed share, known as a minimum guarantee, which escalates annually in some cases. So, what we see in Q1 is an additional cost of approximately INR 1.4 crores due to higher escalation on older screens within the multiplex category. While the addition of new screens contributed around INR 60 lakhs to the share, it's important to note that a significant portion of this costs is fixed in nature.

If you look at previous quarter's advertisement revenue, it was close to INR 30.9 crores, which has now dropped. With a revenue base of INR 30.9 crores, even a higher ad share would have been around 55-60%, whereas now it appears at 85%. The key is to ensure continuous growth in advertisement revenue, allowing us to meet the expectations of exhibitors who anticipate added value through increased revenue share in advertisements.

As for normalization, TSR is expected to be fully integrated into our network by Q3, which should stabilize revenue and reduce these temporary fluctuations. These initial shocks were anticipated and are expected to persist for 2-3 quarters. As advertisement revenue increases, the fixed nature of the revenue share will cause the percentage to naturally decrease to around 45-48%, which aligns with our typical range.

Aditya Karanth: Regarding TSR, you mentioned it will be integrated into the regular network by Q3. What kind of incremental revenue should we expect from this integration? Currently, since you're paying them a fixed fee, are you losing money on the TSR screens right now?

Ashish Malushte: Yes, that's correct. Initially, there is a challenge, and as mentioned from the start, this applies not just to TSR but to any new network with a fixed share arrangement. For example, if a single screen demands a fixed fee of INR 15,000 per month instead of a revenue share, the revenue from that screen might not reach INR 15,000 right away, from month 1. It takes time for the sales team to fully integrate and monetize the new addition.

With TSR, the impact is more pronounced due to the larger scale and fixed share requirements. However, this is part of the strategy. The significant advantage is that TSR strengthens our southern network considerably. Previously, our southern network was weaker and less monetized, but with TSR, there's a noticeable improvement. For instance, the Kerala network is rapidly approaching the revenue levels seen last year, despite being integrated for less than six months. This integration is a key driver for enhancing our network's performance.

Aditya Karanth: Wasn't the TSR running ads on their own earlier? I understand there's a ramp-up period needed for new theaters, but TSR is an existing network. Were they not monetizing their ad inventory before?

Rajesh Mishra: TSR was running ads previously, but they weren't able to fully monetize their inventory as effectively as an established network like ours. This is one of the key reasons for our partnership. Additionally, there are technology differences between their network and ours, and integration of that is expected to take around 4-5 months. Hence, the current dip in revenue is part of this planned activity. It's not like that we are caught unaware that this has happened and as Ashish said, this would take time for it to stabilize.

This is a long-term deal with two key aspects. First, there's an immediate focus on monetizing their screens. Second, it's crucial to understand that integrating their network with ours enhances our overall monetization capability. If we previously earned X from our own screens, adding their network means we'll earn X plus an additional factor in the future. Both of these aspects need to be considered together.

Aditya Karanth: Can you provide details on the standalone figures, excluding TSR? Specifically, without TSR, are we still in the 45-50% range, or has it increased to 60-65%?

Ashish Malushte: Let's break it down. To exclude TSR, we need to adjust our ad share figures. For instance, with a total ad share of INR 16.5 crore, removing INR 3 crore from TSR would reduce the share to about INR 13.3 crore. Consequently, revenue might decrease by INR 1-1.5 crore, but the share percentage without TSR would still be high, around 60-65%.

This increase in percentage is primarily due to two factors: first, the revenue drop this quarter compared to Q4 of the previous year, and second, annual increases in sharing rates from some networks as per contractual agreements. If the quarter had been stronger in terms of content, the revenue share might have been lower.

In the initial months of this quarter, lower content performance led to reduced advertiser interest. Despite this, the ad sales teams are optimistic, believing that advertisers and agencies are ready to allocate budgets. But the medium needs to demonstrate its efficacy. Our ability to drive content and audience is limited, but if content performance improves, as seen in Q4, the potential for monetization increases significantly. We anticipate that content performance will improve in upcoming quarters, including the Diwali period, leading to enhanced ad revenue.

Moderator: Next question comes from Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: Government advertising remains below pre-pandemic levels, and our corporate and retail ad revenues are still not up to FY19 levels. Can you provide some insight into why this is the case?

Ashish Malushte: Regarding government advertising, there has been a shift in how central government ministries allocate their advertising budgets, leading to a significant reduction in funds directed toward in-cinema networks. This shift has had a notable impact on UFO. However, there has been progress in activating state government revenue streams and improving corporate advertising to some extent. While the challenge from pre-pandemic levels persists, it is expected to continue until government allocations return to previous levels.

On the corporate front, it's true that revenues have not yet reached pre-pandemic levels. However, recent numbers show a strong recovery trajectory. Corporate revenue is expected to perform well, provided the content pipeline improves. We don't need weekly blockbusters, but consistent performance of successful movies is crucial. Underperformance in this area negatively impacts advertising.

Pradeep Rawat: Could the decline in corporate and retail segments be due to increased spending on online advertising platforms like Instagram or Facebook?

Ashish Malushte: Not necessarily. While digital advertising has grown significantly, so has the overall ad spend. In-cinema advertising offers distinct advantages, such as a captive audience and a large-screen experience, which are valuable to advertisers. While cinema can't provide headcount metrics, efforts are being made to address this in alternative ways. In terms of impact, cinema advertising is highly effective and ranks just after digital media. However, it's more suited for impact campaigns rather than long-term frequency as the average viewer sees only 5 or 8 movies in a year.

The notion that increased digital spending is harming in-cinema advertising is inaccurate. In fact, corporate ad spend at UFO has accelerated in the last 6-8 quarters, particularly as we move beyond COVID.

Pradeep Rawat: I see we have a significant amount of cash on hand. What are the plans for utilizing this cash?

Ashish Malushte: Historically, we've maintained a substantial cash reserve, with over INR 150 crores pre-pandemic. This was to seize business expansion opportunities. When some merger opportunities didn't materialize, we distributed excess cash to shareholders, including INR 60 crores on March 10, just before COVID hit on March 22. Our philosophy is to return excess cash if it's not being utilized.

We maintain a reserve for potential business opportunities, particularly as bank financing for acquisitions can be challenging. Although there are no current acquisition plans, we maintain this reserve, resulting in a net cash position of approximately INR 50 crores. Pre-pandemic, our net cash was around INR 120-130 crores until the dividend was paid.

Pradeep Rawat: Understood. What would be the expected normalized revenue from TSR for a single financial year?

Ashish Malushte: The revenue from each TSR screen is expected to be comparable to the revenue from high-quality screens in our existing network. Typically, this ranges from 30-90% higher than the average revenue, depending on the screen and its location.

Pradeep Rawat: Can you name some of the competitors?

Rajesh Mishra: The key players in the market include Qube, Cinematica in Andhra, and TSR in the South. Additionally, there are smaller players like K Sera Sera.

Ashish Malushte: Two big players, Ufo and Qube, if I have to simplify the answer to your question.

Moderator: We have a next question from Aniket Gada, an individual investor. Please go ahead.

Aniket Gada: I have a question about UFO's recent partnership with NeuralGarage. Could you elaborate on how this partnership benefits us and what potential revenue it could generate? It seems that NeuralGarage's service is related to the editing phase of movies rather than their exhibition. Could you clarify this?

Rajesh Mishra: Certainly. NeuralGarage is a technology company we've associated with for providing marketing and technological services specifically for dubbed films. Their service, known as VisualDub, addresses a common issue with dubbed movies: the mismatch between lip movements and dialogue, which often detracts from the viewing experience. VisualDub uses machine learning and AI to synchronize the audio with the characters' lip movements, making the dubbed content appear more natural. This enhancement improves the overall viewing experience and helps make dubbed films more mainstream.

As this is AI-driven technology, it will improve over time, and we have high hopes that it will find broad acceptance in the market. It is part of our broader bouquet of services offered to the film industry and has great potential, especially among film producers and those involved in dubbing.

The partnership involves a revenue-sharing arrangement with no direct costs for us. VisualDub not only enhances the viewing experience but also provides practical benefits in film production. For instance, instead of shooting scenes multiple times in different languages, a single shot can now be dubbed seamlessly into other languages, reducing production time and costs.

Overall, this partnership adds significant value to our service offerings and addresses a notable gap in the market. While the technology is still being introduced and pricing mechanisms are still being determined, we are optimistic about its potential acceptance and the revenue it could generate.

Aniket Gada: So, would this be considered part of the production fees for filmmaking? Are we venturing into that area?

Rajesh Mishra: No, it's not related to production fees. This is a post-production activity. Once the film is completed and dubbed, we align the lip movements with the audio track, ensuring a seamless match without any noticeable gaps. It’s strictly post-production work.

Aniket Gada: So, it’s about distributing these services to the film industry?

Rajesh Mishra: Yes, exactly.

Aniket Gada: Do we need to allocate additional resources to provide these services?

Rajesh Mishra: No, not really.

Moderator: We have a follow-up question from Ankit Kanodia from SmartSync Services. Please go ahead.

Ankit Kanodia: My question is regarding Caravan advertisement revenue. Although it currently represents a small portion of our overall advertisement and total revenue, how do you see this revenue stream evolving in the long term? Additionally, could you provide insight into the working capital situation for Caravan compared to our other primary sources of advertisement revenue? Are there any specific advantages or disadvantages associated with Caravan in this regard?

Ashish Malushte: Addressing your second question first: The working capital cycle (debtor realization) for Caravan aligns closely with what we experience with corporate ads or government/PSU contracts. Whether it’s a corporate client or a government entity using the Caravan service, the receivable cycle is consistent with other ad sales contracts. There is no difference in how payments are prioritized or delayed; the Caravan service is treated just like any other billing from the ad sales team’s perspective.

Now, regarding your main question about Caravan, this business has been steadily nurtured over time. We have consistently operated these vans before and after the pandemic, and their potential is evident, particularly during election campaigns where political parties often utilize them. Government agencies also leverage these vans to deliver messages to semi-rural and rural areas. Corporates, too, frequently use them to extend their branding or product placements to deeper markets. The caravan business is interesting, offering good margins and serving as a valuable tool for the advertising team to provide a comprehensive offering to clients.

However, from a pure modeling perspective, expectations should be tempered. The revenue potential of the caravan business is directly tied to the number of vans in operation, unlike our core advertising network where the infrastructure is already in place. With the existing screens, we're

only utilizing two and a half minutes, but we have the potential to expand to 15-18 minutes, with rates that could also double, all without requiring additional CapEx. In contrast, for the caravan business to scale significantly, we would need to invest in more vans. While we are open to making that investment if necessary, it's important to note that, for modeling purposes, this business is not a major revenue driver like our core advertising network.

Ankit Kanodia: Regarding Nova Cinema, in the last call, it was mentioned that a couple of properties were expected to open in Q1. Could you provide any updates on that?

Ashish Malushte: Yes, the license to operate one of the screens in UP has been secured. As mentioned earlier, three screens are under construction, and two of them are now completed. For one of the screens, we're just waiting for the right movie release, likely by mid to late this month, to officially launch it in UP. The other two screens will follow suit. This will allow us to gauge the reception of this new offering in those centers. May be by Q4, we should have a clearer picture, particularly after the significant period from Diwali to Christmas.

Ankit Kanodia: Got it. And any reason for opening the first one in a town like Meerut instead of a major city like Delhi, Mumbai, or Bangalore?

Ashish Malushte: This offering is designed specifically for semi-urban and rural areas rather than major cities or metropolitan regions. In India, movie audiences are predominantly concentrated in urban areas and key cities. To expand the overall box office revenue, it's essential to reach deeper into less served areas. Currently, only about 20 to 25 crore people out of India's 140 crore have access to theaters. By targeting these underserved regions, we hope to see growth in film viewership similar to trends observed in some areas of China. If successful, this approach could encourage others to invest in similar markets and broaden the reach of cinema across the country.

Moderator: Thank you. That would be the last question for the day. Now, I hand over the floor to Mr. Tushar for closing comments.

Tushar Pendharkar: Thank you. On behalf of Ventura Securities Limited, we would like to thank the management of UFO Moviez and the participants. Good day.

Moderator: Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation.

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