UFO Moviez India Limited
Q2&H1FY25 Earnings Conference Call

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day, and welcome to the UFO Moviez India Limited Q2&H1FY25 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 Q2&H1FY25 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 Q2&H1FY25 earnings conference call.

The second quarter of this financial year began with the success of "Kalki 2898 AD" (released on 27th June 2024), which performed well across both Hindi and southern markets. Alongside Kalki, the quarter was marked by the record-breaking performance of "Stree 2" amidst a mix of varied content.

The first two months of the quarter saw average performances from titles such as "Kill," "Indian 2," "Bad Newz," "Raayan," "Khel Khel Mein," and "Vedaa." Meanwhile, a few titles, including "Sarfira," "Ulajh," "Auron Mein Kahan Dum Tha," and "Double iSmart," fell short of expectations.

In September, despite a lack of successful Hindi movies, the month proved to be the strongest of the quarter, driven by southern releases such as "The GOAT" and "Devara Part 1.

In total, 470 movies were released (including versions/languages) during the quarter, compared to 484 in Q2FY24 and 476 in Q1FY25.

The combination of fewer tent-pole releases and the underperformance of several key films in the quarter, along with a lack of successful Hindi films in September, resulted in a muted Advertisement revenue for the quarter, contributing a decline of 17% YoY and improvement of 12% on QoQ basis. However, a 7% increase in theatrical revenue and a 79% YoY growth in Sale of product supported overall performance, resulting in an 11% YoY increase in total revenue this quarter.

On the screen network front, the advertisement screen network grew to 3,735 screens, marking a 13% year-over-year. This includes 2,122 multiplex screens and 1,613 single screens, with the addition of 432 advertisement screens over the past year. However, there was a 1% decline quarter-over-quarter.

Turning to the key figures for the quarter and half year ended September 2024 –

The consolidated revenue for Q2 FY25 stood at Rs. 968 million, as against Rs. 871 million in Q2 FY24, primarily driven by Sale of Product. EBITDA was lower at Rs. 102 million, compared to Rs. 177 million YoY, though it improved from Rs. 66 million in Q1 FY25. The company reported a net loss of Rs. 9 mn in Q2FY25, compared to a Net profit of ₹ 33 mn in Q2FY24 and improved from the net loss of Rs. 42 mn in Q1FY25.

Regarding half year performance, Consolidated Revenues amounted to Rs. 1,913 Mn, as compared to RS. 1,725 Mn in H1FY24. EBITDA for H1FY25 was at RS. 168 Mn, compared to Rs. 340 million in H1FY24, mainly due to lower advertisement revenue. On the PAT front, the company reported a net loss of Rs. 50 mn in H1FY25 against a profit of Rs. 58 mn in H1FY24.

The consolidated cash at the end of quarter was at Rs. 998 million and the net cash was Rs.409 million after considering outstanding debt.

Looking ahead, although the quarter began on a subdued note with the release of "Vettaiyan", "Jigra" and "Vicky Vidya ka woh wala video", the upcoming release pipeline looks good with releases such as "Bhool Bhulaiyaa 3", "Singham Again", "Kanguva", "Pushpa 2", , and "Baby John". We are optimistic about building momentum in the upcoming 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 from Smart Sync Services. Please go ahead.

Ankit Kanodia: Thank you for taking my question. I'd like some clarification on the recent press release (Regulation 33), specifically note 4, which mentions an NCLT order issued back in January. In the BSE notification, we've restated last year's quarterly revenues due to this order approving the amalgamation scheme. Could you provide more details on the order, the amalgamation scheme, and why this reinstatement is happening now?

Ashish Malushte: Certainly. The effect was applied immediately after the order was received, which was in Q4 of last year. The issue here is that we are comparing Q2 of the current year with Q2 of last year. However, in Q2 of the previous year, the order had not yet been received, so last year's Q2 numbers did not reflect the impact of this order.

Now, in presenting this comparison, we have two options: either we keep last year's Q2 numbers as they were, without adjusting for the order, or we adjust them to account for the order's effect. Without making this adjustment, it wouldn't be an apple-to-apple comparison. This restatement is a standard practice that allows readers of the financial statements to make a more accurate comparison.

Regarding the merger, it involved some of our 100% subsidiaries, formed for specific purposes, primarily related to our DCI business. One of these companies was acquired in 2011-12 and later became a 100% subsidiary. The purpose of the scheme was to streamline our corporate structure, merging these entities back into the holding company. Since they were fully consolidated in our financials even before the merger, this change doesn't affect the overall consolidated numbers. The main benefit to get those 100% subsidiaries into UFO is some savings in operational costs and improved efficiency.

Ankit Kanodia: That was helpful. My second question relates to the dip in advertising revenue. We understand that ad revenues are impacted when the industry doesn't perform as well in terms of blockbuster releases or the number of films. However, I noticed that the minutes sold per show per ad screen are currently at 2.68 in H1 FY25. Reviewing past years—from FY15 through FY24—I haven't seen this metric at this level. Could you share some insight into what might be driving this figure, as it seems to be a key indicator of our ad revenue trends?

Ashish Malushte: That's a good observation, when comparing with past volumes of ad minutes sold. There is indeed a reduction this quarter, but we've seen similar levels in the past. The key factor here is the erratic

content performance in Q1, which affected ad revenue allocation for Q2. In our business, advertisers often base their decisions on recent cinema performance, so weaker content in Q1 generally leads to lower ad allocations in Q2.

Another important point is our strategic approach to pricing. Although we don't disclose specific pricing details, you can observe that the decrease in ad revenue is not as steep as the drop in volume. This indicates that our ad sales team has been able to sell at higher price points than in previous quarters. This was a strategic move, it strengthens our pricing position—a priority for us as we continue to recover post-COVID.

This outcome reflects a major win for us: despite challenging conditions, our team has maintained higher price levels, which is always difficult in any industry. Had we prioritized volume over price, the numbers might have been different, but this decision supports our long-term pricing strategy.

Ankit Kanodia: My next question pertains to advertisement revenue. If we're experiencing a year-on-year decline in advertisement revenue for a given quarter, I see that share of advertisement revenue with exhibitors and distributors has increased by 33%. In reviewing both the standalone and consolidated results, I noticed a 33% increase in the advertisement revenue share under expenses. Can you explain why this is happening?

Ashish Malushte: There are two main reasons for this increase. First, as you may have noticed, we made critical acquisitions of advertisement screens from large networks in the south earlier this year, in January. These acquisitions came with larger commitments under minimum guarantees, which were higher than our typical sharing rates. To put this into perspective, we added nearly 400 screens to our existing network of 3,600, resulting in a ~12% increase in the overall network.

Since we're discussing this, let me highlight some data points that may be relevant for investors. Back in 2020, or even before that, UFO was generally perceived as a single-screen player. Many investors believed that as single screens shut down over time, UFO would be operating in a declining or sunset industry. We've worked hard to change this perception, as our goal has always been to serve the entire range of players in the industry. Specifically, we've aimed to diversify our network by adding more multiplexes, probably at a higher minimum guarantee value.

The minimum guarantee represents the revenue share we commit to theaters. Over the past four years—including the COVID period—we have significantly shifted the composition of our network. In 2020, we had 3,792 screens, with 1,565 of those being multiplexes. Today, while our total screen count is slightly lower at 3,735, our multiplex count has increased to 2,122. This substantial growth has positioned us as one of the largest advertisement networks in the country with a strong multiplex presence. This expansion into multiplexes has allowed us to improve the quality of our network, which, in turn, supports better pricing and enhances the overall health of this vertical, especially when content performs well.

So, the increase in our ad share is a result of improving the network's quality. I mentioned the 10% commitment we made volume-wise in January, but the broader strategy here is to shift the network composition from single screens to multiplexes, as I explained.

Ankit Kanodia: Right, so if I understood correctly, does this mean that our ad share with exhibitors, which has increased to around 76.43%, could potentially go back down to our historical average of 30–40%, as it was in the past? Is that what you're indicating?

Ashish Malushte: Yes, mathematically speaking, how much the percentage will decrease depends on the denominator—in this case, sales that we do per screen. For instance, if revenue per screen is around ₹4.5 lakh, the share could be approximately 60–65%. As we approach higher revenues per screen, closer to ₹8–9 lakh, the share would drop to around 40–45%. You can actually observe this trend

in our numbers: in Q1, the share was nearly 85%, and by Q2, it has reduced to 69%. This is how it typically plays out.

Ankit Kanodia: Understood. One last question, if I may. Considering the industry's current slow phase, what led us to nearly double our expenses on digital cinema equipment and lamps? I noticed that this cost went from ₹20 crore in H1 FY24 to around ₹37 crore in H1 FY25.

Ashish Malushte: Could you point me to the specific line item?

Ankit Kanodia: It's listed under "purchase of digital cinema equipment and lamps" in the operating direct cost, second line.

Ashish Malushte: Thanks for raising this. This increase actually reflects that industry is not in that kind of bad situation. Let me explain. We have two primary lines of business, which are closely connected. The first, which we've been discussing, is our service offering where we provide services to theatres, monetize through advertising, and generate revenue.

However, since we're deeply involved in this industry, we also act as a one-stop shop for theatres that wish to purchase equipment independently. This second line, the sale of digital cinema equipment, operates more like a trading business for us and is fairly steady, both in India and internationally, particularly in the Middle East, Dubai.

In this trading role, we buy and sell cinema equipment with a 20% margin. The increase in this line item is primarily because more clients opted to purchase digital cinema equipment in India and the Middle East, which boosted our sales, and in turn, raised our cost of purchases. Year-on-year, we gained approximately ₹3 crore from this trading line of business.

To clarify, this shouldn't be mistaken for a core business expense. But it does serve as a signal of ongoing capital investment in the cinema industry.

Ankit Kanodia: So, from a macro perspective, there are two primary drivers for our company: first, the quality and quantity of movies being released, and second, the number of people coming to theatres to watch them. Now, we have no control over the first factor—what movies are made or how many are released, since we're not in the business of producing films.

However, for the second driver, which is increasing theatre attendance, we've launched two initiatives: the Caravan and Nova Cinemas. How do you see these initiatives helping us attract more people to theatres in the near and medium term, and potentially boosting our revenue streams?

Rajesh Mishra: Regarding Caravan Cinema, it's a moving talkies business, we engage in and we see good traction, especially with support from state governments and during events like elections, where it's used by political parties. It's a valuable business as it allows us to reach rural areas without theatres. These vans are even utilized for various government initiatives, such as the 'Viksit Bharat' campaign or Aadhar Card updates. However, the business tends to fluctuate and is active in bursts, peaking around events like elections. For instance, during the monsoon season, activity drops significantly since the screenings are typically held outdoors.

As winter approaches, we expect to see an uptick in this business, particularly in the coming quarters. Now, when it comes to increasing footfall in theatres, we're focusing on initiatives like Caravan and Nova Cinemas to engage audiences in underserved areas and encourage theatre attendance. In many of these regions, there was previously no access to cinemas, so part of our effort is to cultivate a cinema-going habit. However, to sustain this, we'll still, to a large extent rely on the quality of film content.

As mentioned, we see a strong lineup in Q3 and Q4, which should support these initiatives. As for Nova Cinemas, it's still a relatively new venture for us. We recently launched one property in Uttar Pradesh, with a second set to open during Diwali alongside major releases like "Singham" and "Bhool Bhulaiyaa". Although it's early days, we see significant potential in Nova Cinemas to reach deeper into rural areas, filling the gap for communities with limited or no cinema options. This should positively impact both our business and the cinema-viewing habits of people in these areas.

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

Aditya Karanth: First, I appreciate you highlighting the pricing trend in the market—it's positive to see, and it seems like the market is responding well to it, which is encouraging.

But while it's great to see pricing strength, pricing alone isn't enough, as revenue combines both pricing and volume. Volume, however, seems to have remained on the lower side. If we look at PVR, they started the quarter with a strong bounce back in volume, reporting a 40% increase in box office collections. This trend doesn't appear as clearly on your side, even with a few strong releases in August, like Stree 2, which was a breakout hit.

Given this, you had favorable pricing, and potentially should have seen good volume, but that didn't fully materialize. Could you walk us through some of the challenges with volume this quarter? It looks like ad revenues, per-screen revenue, and minutes sold were all down, even with stronger pricing. So what was the issue here? And if possible, could you provide a bit more detail on the pricing side? I also have a few additional questions regarding free cash.

Ashish Malushte: Certainly, let's delve into this. I actually touched on this in response to the earlier questions. In our case—by 'our,' I mean not just UFO but digital cinema as an advertising medium—content plays a key role in shaping advertisers' interest. However, it's not necessarily the case that if a particular movie performs phenomenally well, advertisers will immediately start lining up and adjusting their allocations the next day after its release. For us, it typically takes at least a quarter, or sometimes even longer, for advertisers to begin re-evaluating this medium.

To put it into perspective, digital cinema currently makes up less than 1% of the overall advertising expenditure, So, what that means is 99% of advertising budgets are already allocated elsewhere. Therefore, it requires substantial effort from all of us to regain the mindshare of advertisers. If they've moved their budgets to other areas, it's not easy to bring them back. So, while a successful film like Stree 2 is beneficial for those who drive profits from ticket sales and F&B—like exhibitors—for digital cinema service providers like us, it takes a little longer and relies on sustained content quality to change advertisers' perspectives.

That said, we're really hopeful for Q3, as the upcoming content lineup over the next three months looks strong. This is why, in our case, a hit movie like Stree 2 doesn't necessarily result in an immediate increase in advertising volume.

Aditya Karanth: Okay, because I thought your business was directly correlated to the success of Bollywood. So, when hit movies boost footfall, I expected it to show up in your advertising volume as well.

Ashish Malushte: What you're saying is that there's a lag in response; the success of the content is directly linked to the footfall in theaters. Ultimately, what advertisers are looking for is foot falls, so this lag is always present even though it's directly related.

Aditya Karanth: Okay, so how should one think about your business? You had hits this quarter, but those may not reflect in the next quarter. If there aren't any hits, then again, nothing will happen. Do you need a sustained period of hits for advertisers to return to this medium? What is the turning point?

Ashish Malushte: It's not quite like that. Currently, it appears that way because, as I mentioned, since we account for only 1% of the overall ad spend, we have to put in a lot of effort to attract advertisers' attention again. At the moment, it seems like it's a game of content, but if we look back to the pre-COVID period, this was always the situation. There would be good content and bad content, but people didn't discuss it as much; they simply went to watch films.

What has changed is that for a period, audiences were selective about which content to see, resulting in a decline in average consumption. Typically, people used to watch around 5–7 movies a year, but that number has dropped.

Now, honestly, this change in habit has made us wonder whether it's a permanent change, which would be concerning. However, let me share one data point: in the last three months, we've seen numerous re-releases performing well. In fact, even Gen Z is going to see movies from the 1990s. This indicates that people genuinely want to go out to theaters and enjoy themselves, rather than just chasing new content.

Hopefully, this consumption pattern will return to normal, where people watch 5–7 movies a year without excessive discussion on social media. If that happens, we can revert to a normalized consumption scenario, which will help us attract advertisers and secure higher allocations.

Aditya Karanth: Could you help me understand how you define free cash flow? Specifically, how much cash does this network generate? If we look at normalized acquisitions, what was the free cash flow generation of this business pre-COVID, and what is it now? You can define it as cash flow from operations minus, say, ₹10 crores in capex or something similar.

Secondly, regarding the percentage sharing number, it's still quite high. It seems like you're almost working for the exhibitor rather than for your network. When do you expect this to normalize, and what kind of timeline should we anticipate for it to come down to the 45-50% range?

Ashish Malushte: Let me address the second question first. We've discussed how the sharing percentage has decreased from 85% to 69%. The reason for this high sharing level is our efforts to improve the quality of our network, which now includes over 2,100 multiplexes. As revenue increases, the percentage of sharing will continue to drop. For more detailed information, I would request my IR team to connect with you directly to provide those insights.

Now, regarding your first question, instead of just stating our cash generation numbers, let me present it differently. Our business currently operates with a certain level of EBITDA profitability. The key drivers for increasing both revenue and profitability will be the volume of advertisements and the pricing of advertisement minutes.

For instance, if I were to double my current 2.7 minutes of advertising per show and double my pricing, I could theoretically see four times my existing sales. Importantly, this increase would not come with a proportional increase in expenses like sharing. Therefore, around 55-60% of my incremental revenue would directly contribute to profit before tax (PBT). Moreover, there is no mandatory capex required, as we are essentially optimizing our existing network.

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You can consider the numbers I provide on a six-month basis as a minimum baseline, and then you can project your own estimates for where volume and pricing might go in ad sales. Approximately 55-60% of that revenue will translate into PBT, which is nothing but your free cash.

Aditya Karanth: Okay, do you have any specific ballpark figures regarding past and future performance? For instance, if we assume normalized pricing and that the market clearing price for your network is currently unknown, what if we considered scenarios with, say, 10-20% higher pricing and 30% higher volume? What would that mean for your cash flow?

Ashish Malushte: To provide a meaningful estimate, I would need to forecast where I expect pricing to grow and when. That's why we typically do not provide such indications. However, if you perform the calculations—using a simple Excel model—you can take the current base and calculate incremental revenue, with around 55% of that contributing to the bottom line. Revenue will ultimately be determined by advertising minutes and the spot rate.

Aditya Karanth: I've done the math it's just that the numbers are not turned off yet.

Ashish Malushte: Indeed, we have come a long way since the height of the pandemic. I often mention that we're on a slow recovery path, and as one of the industry players, we anticipate a significant push moving forward.

Aditya Karanth: Yes, I believe it's still undervalued, but I hope it will improve soon. Thank you so much.

Moderator: Next question comes from Ashish Goyal from Maxrock Investments. Please go ahead.

Ashish Goyal: My first question is on the equipment sales business. Since COVID, this business has performed well for us. What are the primary reasons behind this growth, and do you think it's sustainable long-term?

Rajesh Mishra: The equipment sales business operates in two main regions: the Middle East and India. A significant portion of this business comes from our Middle East operations, where it has been steady. In India, as the cinema industry expands and more players enter the market, demand for equipment is also increasing. These customers often need an integrator—not only to sell and maintain the equipment but also to provide additional business support services, such as content and advertising sales.

We encourage this model, as it allows us to participate in the market without needing direct investment while capturing value through equipment sales and support services. This is an area we plan to continue expanding in the future. In the Middle East, particularly, the opening of Saudi Arabia's market last year resulted in a decent uptick, and we expect volumes to remain high in this region. This increase in product sales is a positive sign, and we're optimistic about future growth.

Ashish Malushte: On the number front, for this quarter, equipment sales reached ₹22.5 crore, with a margin of ₹5.7 crore. Of this, approximately ₹17 crore in revenue and ₹4.7 crore in direct margin came from the Middle East, significantly contributing to our overall performance.

Ashish Goyal: My second question is about the recent screen additions, specifically the increase in prime and multiplex screens. Could you explain how these additions are impacting our overall business? On the surface, it doesn't seem to have much movement in revenue. Could you help clarify the numbers and how these new screens contribute to our core business and revenue?

Ashish Malushte: To address your point, while we've added new screens, it hasn't led to a noticeable increase in revenue. This is because, during this period, many screens have closed down in the industry. For example, in Q4 FY20, our total screen count was 3,792, and now it stands at 3,735—down by around 60 screens, despite adding a significant number of new screens. Notably, our multiplex screen count has increased from 1,565 to 2,122, adding nearly 600 multiplex screens to our network.

However, despite these additions, the overall number of screens has remained almost the same due to closures in other categories. This is important because certain revenue streams, like rental and CDC, are tied directly to the number of screens, rather than the quality. While there's some correlation, the impact is not immediate. As a result, these revenue streams have remained stable

as my overall number of screen has remained almost same. That said, the higher quality of our new multiplex screens will help improve our positioning with advertisers, and that is what should start happening from now.

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

Ankit Kanodia: Our share price has dropped significantly in recent months, and given our strong liquidity position, are we considering announcing a buyback at this price and valuation, especially since we believe the medium- and long-term outlook is favorable for us? Is this something being discussed?

Ashish Malushte: The answer to that is no. The liquidity you're referring to comes from fresh infusions into the company during the end of the COVID period, which has helped us maintain a solid cash position. Currently, we are still net cash-positive. However, there are no discussions around a buyback, and technically, it isn’t possible due to accumulated losses. So, even though there’s no buyback consideration, our focus is on getting the business back on track—particularly in terms of screen additions and, more importantly, growing advertisement revenue.

Ankit Kanodia: I didn't understand the part about accumulated losses, as the results are positive. Could you clarify?

Ashish Malushte: The results you see are due to share premium. However, the accumulated losses refer to earlier periods in the business.

Ankit Kanodia: Got it. Thank you, and all the best.

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.