UFO Moviez India Limited

Q3&9MFY19 Earnings Conference Call

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MANAGEMENT:
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MODERATOR:
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Moderator: Ladies and gentlemen, good day and welcome to the UFO Moviez India Limited Q3&9MFY19 Earnings Conference Call, hosted by Phillip Capital. 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 an 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 Ankit Kedia from Phillip Capital. Thank you and over to you Mr. Kedia.

Ankit Kedia: On behalf of PhillipCapital, I welcome everyone to the Q3&9MFY19 post results conference call for UFO Moviez. The Company is today represented by Mr. Sanjay Gaikwad – Founder and Managing Director, Mr. Kapil Agarwal – Joint Managing Director and Mr. Ashish Malushte – Chief Financial Officer. I would now like to hand over the call to Mr. Gaikwad for his opening remarks, post which we can start the question and answer session. Thank you and over to you Sir.

Sanjay Gaikwad: Thank You, Ankit. Greeting everyone and thank you for joining us on UFO's Q3&9MFY19 earning call.

Let me run you through the headline numbers and key operating highlights before we open the floor for questions. In Q3FY19, Consolidated Revenues grew 10.3% to ₹1,547 Mn. EBITDA increased 10.7% to ₹406 Mn. PBT grew 28.5% to ₹230 Mn and PAT increased 21.9% to ₹146 Mn.

We delivered 26.6% growth in Total Advertisement revenues in Q3FY19 to ₹626 Mn as compared to ₹494 Mn in Q3FY18. In Cinema Advertisement revenues grew 19.2% Y-o-Y to ₹560 Mn during the quarter primarily driven by ~40% growth in Corporate advertisement revenues. Inventory utilization grew 28.1% in Q3FY19 to 5.81 minutes per screen per show compared to 4.54 minutes in Q3FY18. The advertisement share to exhibitors as a percentage of in cinema advertisement revenues decreased to 34.72% from 37.12% in Q3FY18.

In Q3FY19, Caravan Talkies advertisement revenues grew 170.4% to ₹66 Mn compared to ₹24 Mn in Q3FY18 driven by higher realizations and increased utilization of vans. Losses in Caravan Talkies have decreased and we expect further improvement going forward.

Despite reduced rates in South, the E-Cinema VPF revenues grew by 5.6% to ₹284 Mn led by strong movie content in Q3FY19. The D-Cinema net revenues decreased by ₹24.9 Mn Y-o-Y on account of planned D-Cinema sunset.

During the last nine months, Consolidated Revenues stood at ₹4,229 Mn. EBITDA stood at ₹1,027 Mn and PAT stood at ₹330 Mn.

The total Advertisement revenues grew 15.3% Y-o-Y to ₹1,568 Mn and In-Cinema Advertisement revenues grew 9.8% Y-o-Y to ₹1,414 Mn during the last nine months.

Moving to balance sheet items, as on December 31, 2018, Net Cash stood at ₹962 Mn as compared to ₹990 Mn as on September 30, 2018. This cash position is after the payment of ₹240 Mn in the month of December 2018 towards the acquisition of 66.67% equity in Scrabble Digital Limited making it the Company's wholly owned subsidiary. Also, the Capex intensity during the last nine months has been low at ₹269 Mn compared to ₹654 Mn in FY18. The Company's LTM-DSOs stood at 97 days as compared to 87 days as on September 30, 2018.

On the Scheme of Arrangement and Amalgamation between UFO and Qube, NCLT - Chennai had sanctioned the Scheme in August 2018. However in January 2019, NCLT - Mumbai dismissed the petition filed for the approval of the same scheme. We are still awaiting the final order from NCLT - Mumbai and will decide the way forward once we receive the order.

As previously mentioned, the Nielsen audience measurement process commenced as planned. Nielsen is now in the process of comparing the outcome for multiple weeks to establish robustness of the design model. We expect to start receiving final outcome from next month and then we can start socializing it.

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

Moderator: The first question is from the line of Neeta Khilnani from B&K Securities.

Neeta Khilnani: Our Corporate revenue growth this quarter has been very strong, could you highlight the reasons for this? Also, with elections coming up, how do we foresee in-cinema advertisement revenue growth for Q4 as well as FY20?

Kapil Agarwal: Corporate advertising revenue grew by almost 40% on the back of good content in Q3 as well as deeper engagement with clients. As far as Government revenue is concerned, Q3 was affected by State Elections because the code of conduct was applied. We were expecting the same and had also guided for this in our last quarters call. Now, for the Lok Sabha elections, as soon as the code of conduct applies – which is expected sometime towards the second half of February – immediately all the Government business will come to a standstill. So, we expect reasonable growth in Corporate revenue in Q4, it may not be as high as in Q3, because content slate will be very different. But, Government revenue is expected to see a decline because of the election.

Neeta Khilnani: In the Corporate piece, have our advertisement rates increased this quarter?

Kapil Agarwal: Yes, advertisement rates have seen some increase in this quarter.

Neeta Khilnani: Could you quantify the growth from volumes and realizations?

Kapil Agarwal: In Corporate advertising, rates have grown as compared to previous quarter by ~14% on an average. Although we do want to achieve volumes, we do not want to comprise on rates. But we have annual clients for whom rates are very different. There are clients who will put money for one to six months, irrespective of the kind of movie. And there are clients who advertise during specific movies. So the rates there are very different. When we see the average rate, it is the combination of all these factors. There are annual clients or long-term clients who operated in the last quarter at a lower rate and will still be operating in this quarter at the same rate. But because movie content was good, we had better realizations as a lot of clients came in for movie specific business, for two-week business, so that is where you get better rate.

Neeta Khilnani: Does the guidance for FY20 of 20% revenue growth remain?

Kapil Agarwal: We will talk about this in the next quarter's call because we will have a better handle of the situation. We have already guided for Q4 – for Government and Corporate advertising. Caravan will also see very healthy growth in Q4. So, in Q4, Corporate will see reasonable growth, Caravan will see healthy growth and Government is expected to decline.

Neeta Khilnani: Why do you think NCLT Mumbai dismissed the case and what could have led to the divergence in view, any thoughts on that?

Kapil Agarwal: We are awaiting the order. It has come as a complete surprise to us, our lawyers and everybody. We use the best of brains in the Country; the best lawyers are working on this merger. The same scheme was given to NCLT in Chennai and Mumbai. Till the last moment, there was expectation that it will get approved. It is very unusual that a merger gets rejected, as it was approved by SEBI, stock exchanges, creditors, shareholders and NCLT Chennai bench. The judges only said that your petition is dismissed and the order will be issued, which is expected in one or two days. Like you, we too are very curious to know the reason for which the petition which was approved by another bench was dismissed by a different bench.

Moderator: The next question is from the line of Karan Taurani from Elara Capital.

Karan Taurani: Your advertisement network has declined by about 5-6% Y-o-Y consistently in the last two quarters, anything to highlight over here?

Kapil Agarwal: Our combination of 3,738 screens is made up of very diverse categories – multiplexes, single premium screens, single mass screens. We continuously assess cost versus revenue and, based on this; allow some screens to go to the competition. For screens that are worth retaining, we offer higher advertising share minimum guarantee and retain those screens. Smaller organizations have very unviable offerings, we do not know how they survive but they are far below cost. For example, if our average E-Cinema VPF is ₹10,000 to 12,000 per screen per month, they are offering it at ₹4,500 fixed per month. We assess the revenue we are getting from these screens – both from E-Cinema VPF as well as advertising. Whenever we see that cost to retain those screens will be higher than revenue – generally, for these screens on an average, our VPF as well as advertising revenue is close to a third of our global average – and if we try to incentivize them further, we will go below our cost point. So we allow those screens which are not remunerative for us to go the completion and it is a very conscious call. This is one reason for the decline in number of screens.

The second reason for reduction is the closure of screens. There are single screens, which are very low grade, where content owners/distributors are not even willing to give them content because their revenue is very low and the cost of giving content to these screens, which is the virtual print fee they pay us, has to be measured versus the revenue. Many do not have credible electronic ticketing systems; they do not declare their revenue truthfully. So the distributor now assesses: if a distributor is going to pay ₹10,000-12,000 for virtual print fee to UFO or Qube, should he even give them content if my revenue will only be ₹15,000-20,000. So these screens do not get content, and very low grade screens die a natural death and are closing now.

Overall, we do not want to change our VPF structure, because that will apply to 3,000-4,000 screens and the impact will be very high. We have recently implemented a scheme of revenue share with producers for such screens, so that the distributor is not out of pocket due to VPF. We have very recently socialized the new scheme in consultation with many producers and have a good response as, whatever is the collection, they share 20% with us. So if the collection is ₹15,000, they give me only ₹3,000 instead of ₹425 on pay-per-show basis. The idea is to arrest the trend of screen closures because ultimately our eyes are on advertising revenue. These screens may be low grade and Corporates may not be very enthusiastic to advertise on them but Government advertisement revenue is fairly good. In fact, these screens are the right platform for Government messaging.

To sum up, One, screens which are lucrative, we retain them and do not allow them to go to the competition without changing our VPF or rental structure but by giving the higher advertising minimum guarantee. Two, we exit the screens which are un-remunerative because our cost of servicing is higher than revenue. Third, we are trying to arrest this phenomenon of screen closures by launching different offerings in the market.

Karan Taurani: My next question would be regarding the Nielsen data. Expecting the data to be launched in the next one or two months, when do you expect the actual impact on Corporate advertising revenue?

Kapil Agarwal: Nielsen data, as mentioned in the opening remarks, is already there. Nielsen has started the survey and they have a few weeks of data. Right now, they are assessing the robustness of the survey design because they have to extrapolate data from 20% of the screens to 100% of the screens. We expect that from next month they will start giving the final report to us, which we can then start socializing.

Sanjay Gaikwad: The Nielsen data outcome, once we start socializing it, we do expect to see impact on our revenue from Q2 or Q3 next year.

Karan Taurani: One last thing, what is the update on UFO Framez? Have you gone deeper into clusters, or because of Nielsen data have you moved your focus away from there?

Kapil Agarwal : We did not move away from Framez because of Nielsen but were not pushing or restructuring Framez very aggressively in the last few quarters because we were expecting this merger to go through and, as we mentioned in the last call, the Qube team is very strong and efficient in hyper-local advertising. So, we were expecting to merge this line of business with their expertise. So far as Framez numbers are concerned, in Q3 we have seen some of uptick but, the revenue is not significant as of now.

Moderator: The next question is from the line of Vikram Ramalingam from Maybank Kim Eng Securities Pvt Ltd.

Vikram Ramalingam: Does the delay in this merger affect the Nielsen report by any means?

Kapil Agarwal: When we instituted the Nielsen report, the merger was not completed, so we are two different Companies. Actually, Nielsen has two different mandates, one from UFO and the other from Qube. There is going to be no impact on the Nielsen report because they were anyway looking to publish two reports till the merger happens. Obviously, when the merger happens, we could exploit the whole network much more effectively, which is the whole objective. But right now, both Companies will get the Nielsen data independently.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: Earlier, you mentioned that there were certain low-end screens which were not finding it viable to sustain and hence there are some shutdowns. Secondly, there are certain screens where the competition is offering very lucrative VPF or lease rental deals on a selective basis, and you are trying to retain screens based on the potential for advertising revenue.

Two things here. One, while we are trying to retain certain screens, you mentioned that you are giving them higher advertisement revenue share instead of reducing VPF. Does that explain the increase in advertisement revenue share – from a 9 month perspective, there has been an increase to 36-37% versus our guidance of 26-29% over the longer term?

Kapil Agarwal: What we said is that when advertisement revenues stabilize, we should be at 26-29% of revenue share over the long term. Revenue share is a combination of the share that we give to screens and minimum guarantee for us to retain screens. This has been the practice for many years and we use it as a retention tool. Many competitors are doing business illegally, they do not charge rentals, which is not allowed, they do not make invoices as the screens are not registered under GST. Those screens, we let go of. Every screen, which we are in the process of losing, is escalated to me. So for every screen there is a lot of scrutiny within the Company – whether we should allow it to go or not. So, one is the percentage share, second is the minimum guarantee, third are the screens where we buy out their inventory and then do not have to pay any sharing. Many times we are initially losing money on such screens. Revenue share is a combination of all these things, including bought out inventory. Suppose that in Ahmedabad or Pune, we have only a few top screens – we would then like to acquire them at any price. On those screens, we may be losing money or sharing 80% of the revenue on them. But when we bundle them, anybody who wants that screen has to buy our other screens. So, this is the combination and the ideal sharing should be 20%, because in the South it is 10% and in the Non-South it is 25%. Still, we have given the guidance of 26-29% because of this bought out inventory. Advertisement revenue share last year same quarter was 37.12%, while this year it is 34.72% – so there is a drop of 240 bps and that is because there is an increase in revenue. As revenue goes up, percentage of sharing will drop and whenever revenue drops, sharing will always go up because of this fixed revenue sharing.

Ankur Periwal: But if I look at Q-o-Q, our in-cinema advertisement revenue has increased from ₹453 Mn in Q2FY19 to ₹560 Mn in Q3FY19 but ad revenue share is almost same – 34.53% and 34.72%. With the jump in advertisement revenue, even on a sequential quarter basis, the percentage share should have come down which has not.

Kapil Agarwal: This is because we are also continuously buying out inventory of certain screens, where we have a very different arrangement of revenue sharing. This is a continuous process.

Ankur Periwal: Despite higher revenue Q-o-Q, advertisement revenue share is still high. As a derivative of this, given that certain private equity funds are still funding the competition, there is a fair probability that even if our revenues grow at 20% over the next few years, the percentage share may not come down as significantly as you were thinking earlier, is such an understanding right? Competition will try and acquire good screens that fetch higher advertisement revenue. You obviously would like to retain those screens and hence share a higher number with them. This becomes circular in a way.

Kapil Agarwal: Theoretically, what you are saying is right, assuming that there will be constant pressure from competition. But the idea was that with the Nielsen report and after the Qube merger, advertisement revenue should see substantial growth and in this light the guidance of 26-28% was shared. In the short run, revenue share may remain in the range of 32-34% but eventually, as things start falling in place, it should stabilize at 27-28%.

Ankur Periwal: Now, for the quarter specifically, earlier you had mentioned that you should be able to get rate hikes, especially where we do not have long-term contracts – but more spot sales. But if I look at in-cinema revenue, growth is 21% Y-o-Y while volume growth is 28%. So, effectively there is a realization decrease of 6%.

Kapil Agarwal: If you remember in the last quarter, there was a substantial rate drop, which we discussed. Now, as compared to previous quarter there is ~14% increase in the average pricing for Corporate advertising.

Ankur Periwal: How much of our aggregate in-screen advertising is long-term in nature where price hikes are still not ingrained?

Kapil Agarwal: We are pushing more long-term contracts because they bring us consistent revenue independent of the mood of the buyer that are followers of Salman Khan or Shahrukh Khan, will put money on their movies. Long-term contracts are also being helped by the failure of some blockbuster movies recently and the success of sleeper hits like Andhadhun and Badhaai Ho. On a big movie, business is written two weeks back while on a small movie nobody puts money. Now, if a blockbuster movie flops, people try to withdraw their business but if a small movie is successful, it is too late because the weekend is over by the time you realize. There may be a big movie which flops where clients have committed money, while a small movie does business of ₹200 crore. Uri: The Surgical Strike did business of ₹200 crore, Badhaai Ho did ₹100 crore and Andhadhun ₹100 crore – all these movies came in the last quarter. So, we are trying to drive home the point to people that they should write long-term cheques based on average capacity utilization. Some Marathi movies are doing very well, so if you do business week-on-week consistently, you will get the impact. When you do that, there are more long-term contracts and you may see a drop in the average rate but there will be a rise in revenue. Long-term contracts in any medium have lower average pricing. If somebody is writing a ₹5 crore cheque for the next six months, he obviously will demand a better price – but then that business is there with you irrespective of the movie and you do not have to put the same sales effort. So, on pricing we are not too concerned because we are doing only 5-5.5 minutes today. While we are not compromising on price, our idea is to enter into more long-term contracts and with this you will see a decline in average pricing. We would not be worried about it because when we start using 10 minutes of inventory, we will start hardening the price. That means we have established more demand for our product and that is when we tell the client that if you want our medium, pay us so much. So, we do not think that we should worry about pricing till then; this is the policy we are following.

Ankur Periwal: On the subject of Nielsen, you'll mentioned that we will be getting the data after two or three quarters which is probably in Q3FY20. Then, we will share it with advertisers and benefits will flow through, is that the right understanding?

Kapil Agarwal: What Sanjay said and I clarified is that the data is already there. Nielsen is in the process of establishing the robustness of their design model – that everything is working fine and the extrapolation is actually matching. Next month, we expect the final data to come in from Nielsen, which we will immediately start socializing. Sanjay said that in Q2-Q3FY20 you will start seeing the impact. If we start socializing it with clients in March or April, it will take people time to absorb the data, understand it and raise queries, before starting giving us business based on that data. So in Q2 or Q3, the impact based on the data will start coming. It will be weekly data – available on trailing four weeks basis every week. It is a continuous 52 week measurement. Every week, Nielsen will provide data of the last four weeks, the previous week will be deleted and the latest week will be added.

Moderator: The next question is from the line of Urmil Shah from IDBI Capital.

Urmil Shah: On the rationalization of screens, is the cleanup done or we might see some further reduction of screens going into FY20?

Sanjay Gaikwad: We continuously do our analysis of screens based on utilization and revenues. We still see 150- 200 screens, which are running at low utilization levels and, as Kapil mentioned, we recently created a new business model that will allow those screens to start getting access to content and we will be able to start monetizing them better. This revenue share model has received the blessings of the community of producers.

Urmil Shah: My second question is on the Nielsen data. There seems to be a delay of a couple of months. Is this driven by any change in the design of the survey or output reports? Are we absolutely ready that from next month we would be able to get the data to our clients?

Sanjay Gaikwad: There is no delay. As mentioned, the survey started in November; we started getting the weekly outcomes from December. But to put a formal stamp on it, Nielsen is actually going through the robustness of the design because simultaneously we are providing them the actual data from screens where we already have a ticketing system. So, they are comparing their sample-based outcomes with the real outcomes. They are going to do that over multiple weeks before they finalize the robustness of the data and start sharing the final outcomes with us from next month.

Urmil Shah: Once this is stabilized, what are the first few things you will target – would it be higher volumes or reduced quarterly volatility?

Sanjay Gaikwad: In the long run, we will move in line with the international model. Instead of just selling screens, we will start selling eyeballs like in the case of digital media. This will eventually help us because instead of investing only on blockbusters, clients will start investing in every movie and get charged based on the actual number of eyeballs, which will be validated through Nielsen's reports. The sale process will typically happen through a prediction mechanism based on which clients will invest. Subsequently, we will adjust the deal size based on the actual data. Eventually, everything will move to a model where we will monetize inventory based on eyeballs or tickets sold.

Urmil Shah: Of course you will address it once you look at the order but we would have thought about the alternatives we have for the merger with Qube, commentary on that would be really helpful?

Kapil Agarwal: Until we know the reason for the dismissal, we cannot work on any alternate plan. We have spoken to our lawyers and they are very clear that first let us understand what the reason is, only then will we decide the next course of action. If we get the NCLT order by the end of this week, or even by Monday or Tuesday, only then will we be able to decide. So it will be speculation if we share any thoughts without looking at the order.

Moderator: The next question is from the line of Nikhil Vaishnav from VD Investments.

Nikhil Vaishnav: In Corporate advertising, is there any customer who contributes more to our revenue Q-o-Q?

Kapil Agarwal: Yes, as we explained, there are clients who come in for annual business or longer-term business.

Nikhil Vaishnav: How much are they contributing on a percentage basis?

Kapil Agarwal: The top 20 clients have contributed almost 50% of the business in Q3FY19 and 40% of the business in Q2FY19. That shows the consistency and the increase in long-term business from bigger clients.

Nikhil Vaishnav: I would like to know the break-up of Corporate and hyper-local revenue this quarter. If you could explain briefly how the hyper-local business has been growing till now and how do you see it contributing after the Qube merger happens?

Kapil Agarwal: In Q3FY19, Corporate advertisement revenue is ₹324 Mn within which hyper-local business is only ₹10.1 Mn so it is roughly 3% of the business. Compared to this, Qube gets almost 20% of their overall advertisement revenue – not only Corporate advertisement revenue but overall advertisement revenue from retail. Which means ~40% of their Corporate business is coming from retail. So, for us too, this should change significantly, but we will cross that path once the merger happens.

Nikhil Vaishnav: Also, our D-Cinema screens are increasing Q-o-Q but revenue has decreased. On the revenue side, is it only the impact of the sunset clause or is there some shift of Hollywood movies to E-Cinema?

Ashish Malushte: The reduction in revenue from D-Cinema that you see is entirely on account of the planned sunset.

Kapil Agarwal: Hollywood movies do not release on E-Cinema. Only Indian movies released by Hollywood studios like Viacom and Disney release on E-Cinema platform. Hollywood English movies do not release on the E-Cinema platform, but only on D-Cinema and that is where the sunset is affecting us.

Nikhil Vaishnav: You have given a guidance of ₹200 Mn of sunset impact, what about FY20, is there any guidance?

Ashish Malushte: We had given the guidance for ₹223 Mn of sunset impact over two years – current year and next year. Against that, ~₹105 Mn has been subsumed over the first nine months. For Q4 and the rest of next year, we have ₹100-110 Mn worth of sunset to be subsumed.

Moderator: The next question is from the line of Vaibhav Badjatya from Honesty & Integrity Investment.

Vaibhav Badjatya: Given the sunset, just wanted to understand Capex in D-Cinema business. Do we continue to incur Capex for replacement of D-Cinema projectors?

Kapil Agarwal: By and large no. What we have done is that we have changed our business model. Before the sunset, when we were expecting a combination of VPF, rental and advertising revenue, we were using that to invest aggressively. In 2014, our Capex was ₹1,459 Mn, this year in nine months it is only ₹270 Mn. Last year, our Capex was ₹654 Mn and the annualized Capex for this year is only ₹350-360 Mn. We have started changing the business model, as we are not getting incremental VPF or new VPF, we are not investing in DCI equipment any more unless people assure us of minimum rental, including compensation for the loss in sunset VPF.

Vaibhav Badjatya: Would that not impact the long-term stickiness from the exhibitor's side? Because if he has control of the equipment and is bearing the cost of it, would it not be easy for him to switch to the competitors?

Kapil Agarwal: We welcome him to shift to the competitors. We are not going to invest ₹3 Mn of equipment for ₹300 thousand of annual revenue, which does not even cover the interest cost in 10 months. As explained earlier, any exhibitor who wants to shift, we analyze it, assess it, negotiate with him, we do not want to be doing business at a loss. He is welcome to shift because somebody else is going to do that business at a loss which is good for us. If at this level of operation, we are not making money how will my competition make money.

Vaibhav Badjatya: Secondly, in the financial reports of PVR and INOX, I do not see much of VPF income. So I was wondering how long this can sustain – that distributors are ready to pay us for VPF but not PVR and INOX?

Kapil Agarwal: We do not know how they classify their accounts, but they are getting full VPF from all the producers. It is only the English content that is affected by sunset, which they are not getting and nor are we. We do not know under which head of revenue they classify it in their accounts but they get VPF, except sunset VPF, which we are also getting.

Vaibhav Badjatya: So for D-Cinema, there is sunset, but for E-Cinema you are saying that they are getting VPF payments, it is just a matter of classification?

Kapil Agarwal: No, major multiplex chains only operate on D-Cinema system; they do not have any E-Cinema system. On their D-Cinema system, they play Hollywood, Bollywood, Tamil, Telugu, Bhojpuri or any other movie. So every theatre has one kind of system, either E-Cinema or D-Cinema, and every movie plays on that system. So when PVR plays a Hollywood English movie, it does not get VPF because of the sunset agreement they inherited from us, but when they play a Bollywood movie of either an Indian producer or Hollywood studio like Viacom, Disney or Fox, then they get VPF on that movie.

Vaibhav Badjatya: On this Nielsen data, you just said that over the longer term it will drive advertising rates based on eyeballs, so what would be the comparable benchmark for other mediums of advertisement like TV and print? How will our cost per 1,000 or cost per eyeball compare to these benchmarks when the advertiser decides which medium to use?

Sanjay Gaikwad: We have a very complex system to find out the comparable rate. Currently, we see the revenues of major multiplex chains and their advertisement mix – so we know their cost per contact and ticket price. However, to compare this cost of contact with television or digital, finally it is the cross media effectiveness that will determine which media is used. Traditionally, cinema has a high cost per contact but because of high effectiveness, overall RoI is extremely high. What you achieve with a limited number of impressions in cinema, for other media you have to use a higher number of impressions. Various studies have been conducted internationally and we also plan to do a similar study here to guide and help advertisers to determine what is best for them.

Vaibhav Badjatya: Internationally, are advertising rates for in-cinema higher than TV or print advertising?

Sanjay Gaikwad: It is always relative. For TV advertising, you have a very different rate for IPL compared to a less known channel, for a music channel. People typically compare in-cinema with digital media and in-cinema is always at a premium to digital media on cost per impression basis.

Vaibhav Badjatya: In the DTH space within TV, there is a new tariff order that is likely to drive local channels out of business. Have you assessed the impact, if there is potential to capture some of the advertisers on local channels who could shift to our cinema platform for local advertising?

Kapil Agarwal: Yes, we will be studying it in great detail and will be implementing actions based on that.

Moderator: The next question from the line of Harsh Shah from Photon.

Harsh Shah: International D-Cinema is already under sunset until 2020 but what about domestic D-Cinema? Are we seeing sunset even in domestic D-Cinema revenue sometime in the future?

Kapil Agarwal: Sunset is for Hollywood content from Hollywood studios. It is a global phenomenon with different dates for sunset in every international market, including India. Finally, the curtain will be down next year. Movies released by the six Hollywood studios go on D-Cinema sunset and majority of the impact globally and in India is already done.

Harsh Shah: Do you not see any demand from Indian producers that are releasing movies in your D-Cinema compliant multiplex screens to reduce or completely remove VPF going ahead?

Kapil Agarwal: That demand is there for the last ten years. Nobody wants to pay money for services, exhibitors want equipment free and distributors feel there should be no E-Cinema VPF or D-Cinema VPF. But, that is not how business happens. For the last ten years, they have been putting pressure on us to reduce prices but we explain to them the value addition that we are doing in the system, facilitating, maintaining the equipment. If there is sunset on everything, we will not be able to maintain these services. They understands and appreciates that.

Harsh Shah: Regarding advertisement revenue, you share it with exhibitors, not with producers or distributors?

Kapil Agarwal: Advertising, traditionally in India as well as globally, belongs to the theater owner. Theatre owners have assigned those rights to us, we exploit them on their behalf, we share part of the revenue plus we invest in digital cinema equipment and maintain that equipment.

Harsh Shah: And finally, what are your Government advertisement rates now? It was about ₹14 for a long time.

Kapil Agarwal: There is a 20% increase, which the Government has effected from 1st November 2018. Our rate was ₹13, which is now ₹15.60 for theatres of less than 500 seats. For theatres of over 500 seats, it was ₹15 earlier, which is now ₹18.

Moderator: The next question is from the line of Kshitij Bansal from Albatros Capital Advisors.

Kshitij Bansal: This rejection from the Mumbai NCLT on the merger, is the management planning to appeal against this ruling in the near future?

Kapil Agarwal: We will decide our next course of action once we see the order, which has still not been released by NCLT. We are expecting it in the next 2-3 working days based on what they told us it. Currently, it is difficult to say what will be the course of action unless we know the reason of dismissal.

Kshitij Bansal: I believe there was no concern posed by CCI in terms of any kind of anti-trust or monopolizing of the market upon the merger. We are very clear on the CCI front, I believe.

Kapil Agarwal: Yes, we are absolutely clear; there was no objection from CCI.

Kshitij Bansal: This conversation you had a little earlier, about beefing up the overall inventory and on-ground activation revenue in certain screens in tier-2-3 towns. Any concrete strategy that has been formulated on those lines?

Kapil Agarwal: Currently, we have been concentrating on on-screen inventory more than on activation. We did not want to divert our attention from beefing up on-screen revenues – we are concentrating on consolidation, on measurement by Nielsen – all these are targeted towards that. Once we have the Nielsen data in place, we know how many footfalls are there, and then we will be working on it. But currently we are not doing it.

Moderator: This was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Sanjay Gaikwad: Thank you everybody for joining us on this earnings conference call.

Moderator: Thank you very much. Ladies and gentlemen on behalf of PhillipCapital India Private Limited, we conclude today's conference. Thank you for joining and you may disconnect your lines now.

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