"UFO Moviez India Limited Q1 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen and welcome to the UFO Moviez Limited Q1 FY 2016 earnings conference call hosted by Axis Capital 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 an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Negandhi. Thank you and over to you Sir!

Chirag Negandhi: Thank you. Good day and welcome to UFO Moviez India Limited Q1FY16 earnings conference call. We are pleased to host the maiden earnings conference call of UFO Moviez today. From the management we have with us Mr. Sanjay Gaikwad, Managing Director, Mr. Kapil Agarwal, Joint Managing Director and Mr. Ashish Malushte, CFO. Now without taking too much time I would like to handover the call to Mr. Gaikwad for the opening remarks post which we will have the Q&A session. Thank you and over to you.

Sanjay Gaikwad: Thank you Chirag. Good day friends and a warm welcome to the maiden conference call to discuss UFO Moviez' Q1FY16 performance. First of all I would like to take this opportunity to sincerely thank all of you for the strong response that we received in the IPO despite volatile market.

Since this is our first call as a listed Company, I would like to give you an overview of UFO Moviez followed by the highlights of the quarterly performance and business outlook and then we will open the floor for your questions. For the benefit of those who did not see our IPO road show, I'll start with a quick overview of what UFO is and what makes it unique.

UFO Moviez is a Digital Cinema Distribution Network on one hand and an In-Cinema Advertisement Platform on the other. We operate India's largest satellite based E-Cinema Network as well as India's largest D-Cinema network. Any theatre on our network in any remote location of the country can receive film content through our digitization and delivery model. This has benefited producers and distributors as the cost of creating digital prints is significantly lower compared to analog prints. As a result, there is no limitation on the number of digital prints which has enabled nation-wide simultaneous release of movies in theaters on the same day. The safety of film content from piracy is given utmost priority at UFO. We use the most advanced encryption technology and security measures to safeguard data from unauthorized access. Not only have we enabled widespread releases of the movies on our network but also improved the overall movie viewing experience as digital prints have better picture quality than analog prints.

Overall, our offering provides significant cost and time arbitrage to producers and distributors and to exhibitors. We provide value to producers and distributors by reducing their distribution cost, providing them wider reach, faster delivery of content and reducing piracy. This has also benefited movie exhibitors throughout India in a big way as they get access to first day release of movies simultaneously along with other multiplexes.

Leveraging on UFO's E-Cinema Distribution Network, we have created a PAN India high impact In-Cinema Advertisement Platform. Any advertiser now can reach a targeted and captive audience with high flexibility and control over the advertising process on our network. No other In-Cinema Advertisement Platform combines all these elements with such kind of scale. As a result, exhibitors are now able to effectively monetize their advertising inventory.

I would now like to turn to the quarterly performance. We started FY16 on a very, very positive note. Total revenue for the quarter was Rs. 1,306 million which represented 23.3% growth over the corresponding quarter last year. We believe part of this growth was driven by higher advertisement inventory sold and higher E-Cinema VPF revenue. EBITDA for the quarter was Rs. 406 million compared to Rs. 359 million last year, higher by 13.1%. Admittedly, EBTIDA margin during this quarter has gone down from 33.9% to 31.1%, this is amongst others primarily due to higher sharing of VPF with multiplexes as per our prior contractual agreement and spend on the new business of Caravan Talkies and we feel that this is not a matter of worry at all because the new business Caravan Talkies' pre-operating costs are putting pressure on the operating margins, but we are seeing significant increase in the revenues in Caravan Talkies which will bring this EBITDA margin up again. PBT for the quarter stood at Rs. 183 million higher by 43.8% Y-o-Y and PAT stood at Rs.133 million, 65.5% higher over quarter ended June 30, 2014. This actually tells you that the capital intensity of the business is over, so depreciations are now at steady level. The cash generation has reduced the net debt substantially, so the interest pressure has gone down and that has led to growth in PBT and PAT.

Let me now turn to the performance of In-Cinema advertisement. Advertising revenue contributed 28% of the revenue from the operations which in Q1FY15 was 18%, there is a significant shift of the income mix in UFO. This revenue actually stood at Rs. 369 million which is higher by 87.7% compared to the corresponding quarter last year. Total number of advertisement minutes sold per screen per show was 3.81 minutes during the quarter compared to 2.13 minutes in the same period last year. We believe that there is a substantial growth potential in advertisement revenue given that the number of minutes sold per show per screen on our network is significantly lower than the multiplex chains.

During the June quarter, one of the most important highlights of our business is, Universal Studio - one of the Top 6 studios released two movies Fast and Furious 7 and Jurassic World on our E-Cinema Network. This is an extraordinary event. For the first time, a Hollywood studio released its movie on

E-Cinema and both movies became part of 100 Crore Club very easily. We believe that a wider release along with the movie content is equally responsible for the commercial success of the movies at the box office and we look forward to more such releases by other studios also in the future.

In conclusion, we feel are we well positioned to deliver sustainable growth and will continue to create value for all the stakeholders. Once again, I would like to thank all of you for your valuable time and with that I would like to open the floor for questions.

Moderator: The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: The EBTIDA margin has fallen, both Q-o-Q and Y-o-Y, could give us some clarity on full year margins?

Kapil Agarwal: As Mr. Gaikwad has already explained that there is a marginal drop in the EBITDA margins, first of all let me explain to you that our business is not equally divided between the four quarters and there is no similarity in what happened last year should also happen this year because this is not production business. A lot depends on how many movies have come out, how many movies have had a good run, how many movies have had a bad run. More the churn, more the movies pass through our network in any quarter, the more revenue we make. At the same time, if any movie has a very long run in our system because we charge a fixed Virtual Print Fee (VPF) from the studio, if a movie runs for more than two weeks, we don't charge anything after two weeks, as a result our revenue drops. In Q1FY15, the number of successful movies was very few, there were hardly any successful movies. While this year has seen movies like Fast & Furious 7 and Jurassic World which were Hollywood movies, on our network for the first time, ABCD 2, Tanu Weds Manu, Gabbar is Back, so there was a plethora of movies and that you can see in the results of Multiplexes, their performance in Q1FY16 is far better than last year because they thrive on success of movies. But, when the movie is very successful, we lose revenue because we charge a fixed VPF. It all depends and it is not in anybody's control, which movie will do well and which movie will not do well and when, so that is one reason. Second, we are building up new businesses to be able to deliver future growth, like we have explained, theatrical growth is now actually plateauing in our existing businesses because digitization is complete, there are very few new theaters being build, already 1,700 to 1,800 movies are being released in the system which used to be 700 to 800 movies earlier. So, digitization has already brought prosperity but now the growth in the number of movies being released is also plateauing, so theatrical revenues are hardly growing by 4% to 5%. So, the main stress is on the growth of advertising revenue. Therefore, to deliver higher growth in future, we have to get into newer businesses. As a result, we have got into the Caravan business. Because Caravan is a new business, the pre-operative expenses are coming in as we are in the process of building it up. That is putting pressure amongst other things. Finally, we invested five years back in equipment for multiplexes; these were contractual arrangements with multiplexes for first five years where we retain the entire VPF, now, the VPF share has gone up after five years because of the prior contractual arrangement and EBITDA margin dropped. These are temporary issues. We do not see that the overall EBITDA margin for the year to be below what we delivered last year.

Abneesh Roy: EBITDA margins or absolute EBTIDA?

Kapil Agarwal: I am talking about EBTIDA margin. Absolute EBITDA will definitely grow. The operating leverage is also picking up and I am not seeing pressure on the EBITDA margin for the year.

Sanjay Gaikwad: In reality we should have seen increase in EBITDA margin because advertisement revenue contributes higher EBITDA margin. We have two revenues, Advertisement revenue and Service revenue from exhibitor and distributors. As digitization is over, the increase in revenue was smaller compared to increase in cost. That has actually brought the operating margin down. At the same time there is a new business built up, hence the pre-operating cost is putting pressure. This pre-operating cost of Caravan Talkies will put pressure on the EBTIDA margin for the next few quarters but the moment it starts generating revenues, which we have already started generating, subsequently will start contributing positively to the increase in the EBITDA margin in long run and EBITDA will see an upside.

Abneesh Roy: On Caravan Talkies, how much was the pre-operating expense this quarter and how much will it be for the full year? What is the revenue potential from a three-year perspective?

Kapil Agarwal: On an absolute basis, the operating losses of Caravan Talkies in the first year have brought down the EBITDA margin by 0.78% which was almost Rs. 1 crore. Now in terms of the ramp up, we started the year with 24 vans and are ramping up the vans, we already have 50 vans, we should have around 80 vans by September end and we are expecting anywhere from 125-150 vans by year end. It is also opening the inroad for higher logging in bigger clients, because there were many clients who did not want to log in with 24-van, but now the scale is getting bigger. Much bigger clients are actually taking keen interest in this medium because the Caravan vans go to the major dark areas deeper into the villages. There is a sun-down show which happens in the evening where there are no other sources of media, there is no electricity, people can’t watch TV and there are no theaters. This is attracting huge audiences and there is no other means for the advertisers to reach these areas. We have plans to go to approximately 300 vans over the next three years. 300 vans should be operational in next two years.

Abneesh Roy: Is advertising the only revenue stream?

Sanjay Gaikwad: Currently it is only a sun-down show and advertisement driven, our advertisement rate and our advertisement potential in these media dark areas are very, very high.

Abneesh Roy: Do you plan to charge user for seeing content over the longer term?

Sanjay Gaikwad: At the current strategic level, we do not plan to charge.

Abneesh Roy: Bajrangi Bhaijaan and Bahubali are blockbuster movies in Q2. Will the margin pressure continue even in Q2?

Kapil Agarwal: It will continue.

Abneesh Roy: How are you confident that the full year margins will be maintained? Are you building that the second half movies will be weak?

Kapil Agarwal: Please understand that when movies like Bajrangi Bhaijaan starring Salman Khan come, then the advertisement revenue goes up, that is one of the compensating factors.

Abneesh Roy: Buy you also had very good block buster movies in Q1.

Kapil Agarwal: There were no perceived blockbusters in Q1. They succeeded. There was no Bajrangi Bhaijaan kind of movie in Q1. When a Salman Khan movie comes, the whole business is very different for advertising.

Sanjay Gaikwad: Blockbuster movies on a service revenue front bring the EBITDA margin down at the same time it gets compensated through advertisement revenue takes the EBTIDA margin up. There would be a mix of this effect, that is the reason this asset will get neutralized over a period of time and we would be able to maintain the margin.

Kapil Agarwal: Where it affects the revenue adversely is when the perceived value of movies were not very high, when there is a sleeping hit, a movie comes and it just becomes a super hit movie, the advertisement business is decided in advance, one or two week before the movie is released they give the contract. Some movies become a sleeper hit, as a result no advertisement has come on to that and by the second week it is a different scenario.

Abneesh Roy: How does pricing work? When there are two blockbuster movies, does your advertisement inventory increase or pricing increases? I am asking this because Q1 advertisement inventory has also increased by 80% and advertising revenue has increased similarly, the pricing seems to be flattish.

Kapil Agarwal: In Q1FY15, utilization of inventory was only 2.13 minutes and in Q1FY16, it is 3.81 minutes, that is an 80% increase. In the last three years we have been trying to increase the utilization. We are not actually touching rates as a strategy. We have not yet reached a level that we wish to touch the rates.

There is a marginal increase in the rate, very marginal increase but generally we are trying to enhance the utilization. When we reach 7 to 8 minute utilization, that is when we are going to strategically start increasing the prices because then we can demand the price, the idea right now is to fill the inventory.

Moderator: The next question is from the line of M. Suryanarayanan from DSP BlackRock.

M. Suryanarayanan: The advertisement revenue share seems to have gone up as a percentage of lease rentals, you indicated that it would be around 65% normally but in this quarter it is 85%, why has the advertisement revenue share gone up?

Ashish Malushte: In fact the way we have presented in our presentation, we are trying to bring out what is the proportion of revenue that UFO is sharing with exhibitors against the expenses that UFO is charging to the exhibitor. As you rightly said, in Q1FY15, out of the rental amount that exhibitors were paying us, 65% was going back to them, the objective of the Company is to maximize this money going back to exhibitors in the form of advertisement revenue share and we are constantly monitoring it and as the advertisement revenue starts going up, automatically the revenue sharing that we do with the exhibitors keep going upwards at the same time the rental which is contractually fixed remains more or less the same and as a result of which the percentage of the rental that we are sharing back to the exhibitor keeps going up which is in favor of the exhibitor and which is also in favor of us because it helps us to build a longer relationship, a sticky relationship with our key exhibitor base.

The first analysis was comparing the advertisement revenue share with the income which UFO generates from exhibitors. The other way of analyzing this advertisement revenue share is comparing it with the advertisement income that we earn which resultantly gives us the margin from the advertisement revenue. In Q1FY15, this sharing that we were doing was at 41.5% approximately of my advertisement revenue, this percentage has now come down to 31.6% in Q1FY16 because the advertisement revenue has gone up but there were certain fixed components in our minimum guaranteed kind of a relationship that we had with the exhibitors. That remains fixed and as the revenue started going up the proportion of total expenses as a percentage of revenue has dropped. So there is a significant drop to the extent of 988 basis points over Q1FY15.

Sanjay Gaikwad: In summary, in Q1FY15, we gave 41.5% as revenue share to the exhibitor that translated to 65% of the rental revenue, in Q1FY16 we gave 31.6%, which is 10% lower than what we gave last year and even after that it translated to 85% of the rental revenue.

M. Suryanarayanan: The purchase of equipment lamps and spares seems to have gone up quite a bit on a year on year basis, should this be linked to screen growth or is it a maintenance related expense?

Ashish Malushte: This is directly a direct expense relating to the line item - sale of equipment and spares, over here there are two types of revenue - one is sale of spares which is primarily the lamp and this is more or less stable for every screen every year. As the number of screens grow, the number of lamps sold in a year would also grow. On the other hand, the equipment sale which happens in India and in international market is primarily determined by the new customers who want to invest on their own, so that is not really predictable segment, however the sale of lamps is more or less predictable.

Suryanarayanan: On the patent issue that had come up before the IPO, can you explain what has happened since and what is further progress?

Kapil Agarwal: We are now close to reaching an amicable settlement on that issue and we will announce once we reach the agreement.

Moderator: The next question is from the line of Paresh Jain from Max Life Insurance.

Paresh Jain: What is the sort of advertisement revenue growth you are looking at for the full year?

Kapil Agarwal: In our view, advertisement revenue should grow in the range of 40% to 50%.

Paresh Jain: Do you still expect the advertisement revenue to grow by around 30% to 40% in the subsequent quarter?

Kapil Agarwal: Yes.

Moderator: The next question is from the line of Jaineel Jhaveri from JNJ Holdings.

Jaineel Jhaveri: What is the current debt and the cash level?

Ashish Malushte: At the end of the quarter, the Net Debt position is at Rs. 33 crore which was Rs. 51 crore at the end of March. Our Debt has come down from Rs. 127 crore to Rs. 115 crore at the end of this quarter.

Janiel Javeri: Rs. 115 crore is the debt and what is the cash?

Ashish Malushte: Cash is close to Rs. 82 crore and that gives us a Net Debt of Rs. 33 crore.

Jaineel Jhaveri: We have Rs. 20 crore per quarter worth of deprecation, how much of that is deprecation and how much of that is amortization of goodwill?

Ashish Malushte: The Goodwill that we have in our consolidated balance sheet is not a purchased goodwill, there is no amortization that happens, the goodwill would always remain the way it is and it is tested for impairment every year. The entire depreciation line that you see is complete depreciation on fixed asset and a very small component of that is depreciation of intangible assets which is softwares , but it is a very insignificant portion.

Jaineel Jhaveri: We are doing ~Rs. 80 crore worth of deprecation on an asset base of ~Rs. 300 crore, right?

Ashish Malushte: Correct.

Jaineel Jhaveri: That is quite a high level of deprecation. How much actual capex or maintenance capex do we need to do per year?

Kapil Agarwal: We are anticipating maintenance capex to be in the range of Rs. 40 to 50 crore every year because these equipment are electronics and they are not sitting in perfect conditions like large Multiplex chains maintain their equipment which have air conditioned projection rooms. Our equipment are scattered in 1,400 cities and towns, in more than 3,500 locations, these are all individual theaters, old projection room, non-air conditioned, so the equipment would depreciate. As a policy, we test every equipment for impairment every quarter and any equipment which may not be re-deployable is written off so that we do not carry any dead asset in our book. We very proactively write it off, while we still use the spares from these equipments for our repair purposes like cannibalizing these equipments that actually brings down our repair cost ultimately.

Jaineel Jhaveri: Even though we depreciate Rs. 80 crore, we do not use the Rs. 80 crore. We do not need to use all the Rs. 80 crore for the equipment, we just use Rs. 40 to 50 crore out of it, is that what you are saying?

Kapil Agarwal: That is true. The quality of equipment which was bought in 2005 was very different; these equipment were not made for cinema application, but now after a lot of R&D, the newer equipment that we are putting are cinema application equipments.

Sanjay Gaikwad: Each projector will have its own life and then we would go through that replacement cycle. Rs. 40 to 50 crore of replacement capex is part of that replacement cycle where over a period of time certain projectors need to be replaced. This replacement which will happen now during this period because as time progresses, we are getting better projector which are more durable. The life of the projector would be far better. After the replacement cycle gets over, the second level of replacement cycle will have very different results.

Kapil Agarwal: The ultimate cost of ownership of the newer equipment is going to be far lower.

Jaineel Jhaveri: Can you put that into perspective, few years back, how much was it and now how much is it per theater?

Kapil Agarwal: The cost is almost same for what we had 10 years back and what we had 5 years back and what we have today because at that time the Dollar value of the projector was far higher. With the time the cost of purchase kept on going down, the Rupee was depreciating, so that had a compensating effect. So the value is more or less the same, but there is a huge difference in the equipment. One equipment which goes into a theater which charges Rs. 20 or Rs. 30 per ticket while another equipment which goes into a Multiplex screen, ranges from Rs. 5 lakh to Rs. 30 to 40 lakh. To give one answer is very difficult, but conceptually the costs have remained more or less constant.

Jaineel Jhaveri: Is there a thought process of putting this cost onto theater owners?

Kapil Agarwal: Exactly reverses, we want to continue owning the equipment all the time because this equipment keeps giving us perpetual revenues both in terms of the rental from exhibitors, in terms of VPF from distributors and advertising revenue, the moment we start putting the Capex in the hands of the exhibitor, he is free to move to anybody else, so actually this is our biggest USP that we invest in all the equipment and secondly it is the foundation of our business, that we should own the equipment.

Sanjay Gaikwad: Our efforts are to bring better equipment which will have longer life so that replacement cycle will start coming down over a period of time. Digitization was happening till 2014 – 2015, now digitization is over, there is only maintenance and replacement. The new Capex will come as the new screen growth happens, those equipment will have a longer life. The second replacement cycle which will come may be after four or five years would be much lower because we will be having better equipment at the same cost which will have a better life.

Kapil Agarwal: When we do not see the perpetuity of the revenues that is where we actually don't invest in the equipment anymore. Like large Multiplex Chains, their contracts are very different with us because they are bulk buyers. For the first five years, we receive the cost, after five years, that equipment gets transferred, they keep majority of the VPF and we have to transfer he VPF to them so that is where we will stop investing money. Where we see perpetuity of the revenue fundamentally, that is where we invest always and we want to continue investing, where the perpetuity of the revenue is not there we have stopped investing. That is why we now ask the multiplexes to do the capex.

Jaineel Jhaveri: We have increased stake in most of our subsidiaries, what subsidiaries do we have, how much stake do we have in them and what associates do we have and how much stake do we have in them?

Ashish Malushte: We have enhanced our stake in our subsidiaries; two Indian subsidiaries - one is Scrabble India which focuses on D-Cinema business where the stake has gone up to 91.33% versus 76.41% in FY14.

Southern Digital Screens (SDS) which is our subsidiary operating in the southern part of India - our stake currently stands at 84.18% which was 75.18% in FY14. Both these Companies especially Southern Digital Screen has become profit making and at the same time our stake in this has gone up, this is primarily on the subsidiary front which is where we have done enhancement in stake. Additionally, we did a strategic investment in Caravan Talkies which is under Valuable Digital Screen (VDSPL) is now a subsidiary of UFO Moviez.

Jaineel Jhaveri: Is VDSPL a 100% owned subsidiary?

Ashish Malushte: It is an 80% subsidiary, 80% of that VDSPL is owned by UFO Moviez and as far as associates are concerned, there is no change in the stake and the three associates continue at the same level of ownership which was there last year.

Kapil Agarwal: We have two kinds of investments; one is in the field where we are operating as our business which is SDS, Scrabble and VDSPL. We want to control these three Companies and we want to continue increasing our stake, others are the associates, we are there for some strategic reason, we have no intention of increasing the stake further there.

Jaineel Jhaveri: Do you expect that we will be adding more money into all of these going forward and buying out minority holders in Scrabble, SDS and VDSPL?

Kapil Agarwal: We have disclosed in the RHP that it is a three year deal and after three years we have agreed to buy that stake in VDSPL making it a 100% subsidiary. As far as SDS and Scrabble are concerned, we are open, we have no such mindset that we have to buy these or we don’t have to buy this, we will play it by the year, in the future if it is beneficial for us to acquire the balance stake we will do, if it is not beneficial for us to acquire that stake we will not do it, we will assess that from time to time.

Jaineel Jhaveri: In terms of Caravan, you said that you are going to have about 300 vans in the next two years. What kind of Capex you are looking at in this particular subsidiary?

Kapil Agarwal: Each van costs around Rs. 14 lakh, these are Tata 407. You take the chassis, build the body, put the screen, put the projector, put the generator and after redesigning the van cost may go up marginally from Rs. 15 lakh. We are working out the costing, the revenue generating capacity of those vans will also eventually go up. For 300 vans, all you need is a Rs. 40 to 45 crore Capex.

Moderator: The next question is from the line of M. Suryanarayanan from DSP BlackRock.

M. Suryanarayanan: In terms of the mix of ad revenues, is Government and Corporate incrementally changing, what is the outlook?

Kapil Agarwal: Three years back the revenue split was 80% Government and 20% Corporate. This quarter it is 58% Corporate and 42% Government. 58% of enhanced revenue is coming from the corporate sector. We have built more than 1,700 advertisers very successfully. Three years back there were only 350 odd advertisers; that business is expanding rapidly.

M. Suryanarayanan: Incrementally you see that changing more in favor of Corporate?

Kapil Agarwal: The good part is that the Government revenue is that it is also increasing very rapidly, so in the overall mix in Q1FY15 was 57:43 compared to 58:42 in Q1FY16. There is not a significant change in the last one year while the revenue has gone up drastically by 87%. What has happened is that the Government business is also expanding, earlier it was more Central Government revenue and then we started going to the State Government. Today 18 State Governments are advertising with us, each State Government is equivalent to the Central Government because they all have as many number of department as many needs. Surprisingly, we were not expecting Government revenue to expand, while we are expecting a 40 to 50% growth in the advertisement revenue, I am not expecting a very substantial change actually going forward. If it changes, it's welcomed, because Government revenue is also going up, that means the revenue of Corporate has to go up much faster to be able to change which will be a welcome thing for us.

Moderator: The next question is from the line of Amit Kumar from Investec Capital.

Amit Kumar: The number of advertising screens have fallen by just about 50-60 odd screens, just trying to understand what's going on there?

Kapil Agarwal: A lot of single screen are now trying to convert into two or three screen complexes because of content availability, a lot of screens in the last quarter have temporarily shut down for renovation or for conversion, either they are renovating and becoming better screens or they are converting into a two or three screens property. Temporarily, this 40-50 numbers keeps moving up and down, so some screens keep going and some of the screen keep coming back, primarily it is a because of the temporary closure.

Amit Kumar: How much time does it take for conversion from single screen into a two three screen multiplex?

Kapil Agarwal: Anywhere from six months to two years because approvals are required. Construction time is five to six months but it depends on the State where you are. Approvals are a State subject, it takes anywhere from six months to two years for people to renovate.

Amit Kumar: What was the contribution of Caravan Talkies to the overall advertising revenue?

Kapil Agarwal: It is very small, as we were only having 24 vans.

Sanjay Gaikwad: Rs. 1.3 crore, you should actually see Caravan's contribution in Q3 and Q4, that is more relevant. Because of monsoons in Q2, there will not be any sale because the vans don't run. Actual season for Caravan is always Q1, Q3 and Q4; in Q3 and Q4 performance will be interesting to watch. As per our expectation, Caravan will start generating significant revenues for the Group.

Moderator: The next question is from the line of Sanchit Tulsyan from Emkay Investment Managers.

Sanchit Tulsyan: Advertisement expense as a percentage of advertisement revenue has gone down from 41.6% to 31.6%, what kind of number will it go down to?

Sanjay Gaikwad: The revenue share which we give to the exhibitors in the non-south market is typically 25% and in the south market is typically 10%, the weighted average of the pure revenue share is 17% to 18%. I would say more towards 20%, what happens is in a lot of screens, we have given them the minimum guarantee (MG) and that is the minimum guarantee which actually resulted in 41.4% revenue share going to the exhibitor in Q1FY15. This year the advertisement revenue generated has significantly gone up by 87%, that has actually contributed more towards the minimum guarantee and that's the reason that 41.5% has come down to 31.6%, once the advertisement revenue comes to the maturity, it will come towards the average percentage of 18% to 20%.

Sanchit Tulsyan: Out of 3,728 screens, in which we have advertisement rights, how much proportion would be on a fixed basis as of now?

Sanjay Gaikwad There is no fixed basis. It is more of a minimum guarantee.

Sanchit Tulsyan: Because of the minimum guarantee, how much proportion would it be?

Sanjay Gaikwad: Majority of that will have the minimum guarantee.

Sanchit Tulsyan: 80% approximately?

Kapil Agarwal: It could be.

Sanjay Gaikwad: It is primarily in the Non-South market and not in the South, almost 80% to 90% of the non-south market.

Moderator: The next question is a follow up question from the line of Jaineel Jhaveri from JNJ Holdings.

Jaineel Jhaveri: What is the trend looking like now in terms of return ratios?

Ashish Malushte: Trend is absolutely positive. The incremental revenue growth is coming from advertisement which has significantly higher margin than my EBITDA margin.

Sanjay Gaikwad: Capital deployed remaining the same and EBITDA in absolute term growth, you can expect that there will be a significant improvement on all those financial ratios.

Jaineel Jhaveri: On the goodwill, I understand that since there is no impairment and that does weigh in on your return ratios, what is that goodwill for and how much, is there a thought process on not having it on the balance sheet?

Sanjay Gaikwad: As a philosophy or as a policy, the Capital Intensity of the Company means the capital cycle is over. There is no more Capital Intensity, so basically with small incremental Capex you will have higher revenue. Capital Efficiency has gone up drastically because on the same capital now our revenues are going up with the operating leverage which will start increasing this RoCE. With respect to Capital Allocation, our philosophy is basically to only invest in synergetic businesses which can leverage our existing strength and which are not highly capital intensive with absolutely low content cost, that has been the philosophy. To keep improving the return ratios and from the capital distribution perspective the Company is intending to actually give out 25% of its PAT year on year as a dividend. We know that the Company is generating enough cash, so there is no point keeping the cash in the Company and putting pressure on the ratios.

Ashish Malushte: If you look at it from the return ratio perspective, the goodwill exerts a lot of pressure on ratios, the way the accounting standard has been stated today, goodwill on acquisition needs to be kept the way it is year on year, the only thing that can be done with that goodwill is you have to test it for impairment every year and only if there is a visible sign of impairment then you take the hit in P&L in the form of impairment charge. Unfortunately, there is no mechanism wherein on a phased manner you can take a charge in P&L as an amortization of goodwill. At this stage, we will have to take it up year on year in the form of a part of the total assets of the Company, however at the same time we are examining this issue because it is affecting the ratios and we would see if there is any way out within the legal framework to deal with this situation but as it stands today the goodwill would continue.

Jaineel Jhaveri: What acquisition is this goodwill coming from?

Ashish Malushte: We have enhanced our stake in two subsidiaries which where our stake in 2010 was not there at all which is Southern Digital Screens and Scrabble which is doing the D-cinema business in India, these are the two Indian Companies in which UFO invested looking at the scope of the business and the relevance to UFO and these companies upon acquisition gave rise to goodwill. Also, nine years back we have done an acquisition of one of the Companies in Cyprus where the IP of the Company is now located, initially again in this Company our stake was zero which we pushed to 51% around 2007 and as it stands today this Company is 100% owned by us where the IP is, so these three Companies primarily were giving rise to generation of goodwill till last year and in last year the latest acquisition that we have done of Valuable Digital Screen which is Caravan Talkies has added to this goodwill..

Moderator: The next question is from the line of Rohit Dokania from IDFC Securities.

Rohit Dokania: In terms of Advertisement revenues, is the utilization in A and B category towns far higher than utilization in C and D category towns, does it leave some kind of scope for improvement in rates in A and B category towns versus C, D category towns?

Kapil Agarwal: We really haven't noticed any difference in the utilization except that there could be some seasonal factors in some of the locations but apart from that this, it is equally divided, actually the utilization could be slightly higher in Tier II and Tier III cities because the number of screens per city are just one and two unlike the metros where you have hundreds of screens in each locations. We don't see any significant difference except as any seasonal impact or the location impact like in North East they would not run night shows, like in Punjab in winter it is so cold that some of the locations may not be running the night shows. That is only because of these factors.

Chirag Negandhi: Thank you so much, we look forward to talking to you next quarter. Thanks and have a great day.

Moderator: Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference thank you for joining us and you may now disconnect your lines.

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