



UFO Moviez India Limited
Q1FY18 Earnings Conference Call

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MANAGEMENT:

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ANALYST:

ANKUR PERIWAL – AXIS CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the UFO Moviez India Limited's Q1FY18 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 the 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. Ankur Periwal from Axis Capital. Thank you and over to you Sir!

Ankur Periwal: Thank you Lizaan. I would like to thank all of you for dialing into UFO Moviez Q1FY18 Earnings Conference Call. From the management, we have with us Mr. Sanjay Gaikwad, Founder & Managing Director, Mr. Kapil Agarwal, Joint Managing Director and Mr. Ashish Malushte, Chief Financial Officer. Over to you Sir for the initial remarks.

Sanjay Gaikwad: Thank You, Ankur. Greeting everyone and thank you for joining us on UFO's Q1FY18 earning call.

During the quarter, we delivered 14% Y-o-Y growth in consolidated revenues to ₹1,544 Mn. EBITDA grew by 10% Y-o-Y to ₹409 Mn. EBITDA margin stood at 26.5%, contracting by 98 basis points over last year primarily on account of D-Cinema Sunset and higher sale of products which has lower margin. The Company's PAT grew by 83% Y-o-Y to ₹137 Mn.

Overall advertisement revenues grew 24% Y-o-Y to ₹493 Mn despite continued impact of demonetization and roll out of GST. This impact still continues and the industry expects a turnaround in H2FY18. We remain confident that we will achieve our 30% advertisement growth guidance despite a difficult first half.

Our like-for-like advertisement revenues which excludes the revenue generated on UMW screens grew by 22.6% Y-o-Y.

Our advertisement revenue contributed 32% of total revenues from operations compared to 29% in Q1FY17. Corporate advertising grew by 42% Y-o-Y while Government advertising grew by 10% Y-o-Y.

In Cinema Advertisement inventory utilization during the quarter grew to 4.65 minutes per screen per show compared to 3.97 minutes in Q1FY17, higher by 17% Y-o-Y.

We also successfully completed the migration of the United Media Works (UMW) screens during the quarter on our network. We started generating advertisement revenues on these screens towards end of the quarter. We expect these screens to start contributing meaningfully H2FY17 onwards. With the completion of migration, our advertisement network strength has surpassed 4,000 screens mark. I would also like to highlight that over 1,000 screens on our advertisement network are multiplex screens.

Our hyperlocal advertising business – UFO Framez continued to witness healthy traction. The revenue during the quarter stood at ₹11 Mn compared to ₹12 Mn in FY17; that is almost last full

year's revenue in a single quarter. This gives us confidence and we are excited about the future of UFO Framez.

Caravan Talkies has also gained strong momentum. We resumed operation in April and reached a peak of 67 vans by May. Caravan's revenues grew to ₹36 Mn during the quarter compared ₹20 Mn in full year FY17. The realization per van has increased, this has come as a result of enhancing the scope of offerings and repositioning the business. Instead of providing a conventional branding media, we are now providing a 360 degree activation and brand experience to clients. The sundown movie shows of Caravan ensure footfalls, the offering now includes Customer Research and Brand activations. Well-known brands like ITC, Tata Education Development Trust, Emami, Adani Wilmar, Dollar Industries and BSNL have started advertising on Caravan.

It is important to note that the enhanced profitability in this quarter is despite a significant planned impact of D Cinema sunset. The D Cinema VPF gross revenue declined by ₹103 Mn and the net revenue is down by ₹59 Mn. We continue to believe that as demonstrated in this quarter this negative impact of sunset will be set off by the enhanced revenue from Caravan Talkies and incremental revenue from Advertisements.

Also, we recently announced the acquisition of 75% of Sujav Entertainment Private Limited for ₹7.6 Mn. Sujav is in the business of online ticketing and operates under the brand name FastTicket. This is a strategic acquisition. The primary objective of this acquisition is to launch certain products which we will share in due course.

I would like to highlight that we have successfully defended the service tax litigation and have received the order from the Appellate Tribunal on August 24. As directed by the tribunal, the demand to the tune of ₹312 Mn has been dropped and set aside and the balance demand of ₹152 Mn has been remanded to the Commissioner for reconsiderations with clear directions which we believe will support a favourable assessment of the matter when it is taken up for hearing.

Our financial position continues to improve, as on June 30, 2017, Net Cash stood at ₹924 Mn compared to a Net Cash of ₹744 Mn as on March 31, 2017. The Company's DSOs stand at 93 days compared to 90 days as on March 31, 2017.

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

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

Abneesh Roy: There is a significant scale up in Caravan Talkies this quarter, but 360 degree activation is a tougher business, the margin profile could also be lower. What is the long-term viability and margin profile of this business?

Kapil Agarwal: It is a very high margin business. Earlier we were concentrating only on external branding and advertisements with the movie shows. Now, we doing 360 degree activation and the first quarter has been very successful. We have done customer research, brand activation, door knocks with the

existing resources only and we have been able to more than double the revenue per month. This has been very encouraging and we are going into Q3 with a very solid base. We believe that this should be a 40% to 50% EBITDA margin business.

Abneesh Roy: Have you tied up with someone for providing activations or are you doing it on your own?

Sanjay Gaikwad: We have not tied up with any third party for doing activations and we are using our existing resources. Earlier, the movie show used to happen in the evenings and the resources were generally free during the day as these resources were only making movie announcement in the haat (open air market) during the day. Now, we have completely revamped our operating team, we brought new team members with new vigour and we decided to use our team for more productive work. This team has started delivering additional results.

Kapil Agarwal: Moreover, the activation is done by the client resources most of the time, we act as facilitators and provide them reach because our vans carry their products and activation materials. The client's representatives come there and handle the activity. No external resources are required, we have also re-skilled our own people and optimized the utilization of resources.

Abneesh Roy: 24% advertisement growth is a good number and you are confident of 30% growth for the full year. The performance of Hindi box office in the last four months was extremely poor, in that context, what do you think will drive advertisement revenues because FMCG advertising outlook looks bleak because of overall cost cutting and competitive intensity not being as high as earlier? And, when do you see the Hindi box office content delivering in terms of viewership?

Kapil Agarwal: While most of the multiplexes are dependent only on the success of the box office for growth of their advertising revenue, we are only partly dependent. Firstly, UFO Framez hyperlocal advertisement's happens irrespective of the movie. Secondly, Caravan Talkies has nothing to do with the box office. The way Caravan Talkies is growing, it is going to be of great help as it is part of the overall advertisement revenues.

We have some dependence on Box office but not 100%. When advertisers put large amount of money on movies like Tubelight or Jab Harry Met Sejal and they do not work on the box office, they get a push back because advertisers do not get their desired ROI, but this happens every year. We have also been saying that all quarters are not going to be equal. Going forward, we see a lot of new movies like Simran, Lucknow Central, Judwaa 2, Golmaal Again, Secret Superstar, Padmavati and Tiger Zinda Hai till December end and we hope the box office will come back. Irrespective of box office, we push clients towards long term opportunity for advertising on screen and we sign a lot of long term contracts.

Half of our advertisement revenues come from the Central Government, State Governments and PSUs and we are not dependent just on FMCG advertisers on this medium like a lot of the multiplex chains. Therefore, we are confident of achieving 30% advertisement growth.

Abneesh Roy: What is the visibility on Government growth?

- Kapil Agarwal:** Government advertising is growing consistently and we are definitely looking at over 30% growth in Government advertising this year.
- Moderator:** The next question is from the line of Urmil Shah from IDBI Capital.
- Urmil Shah:** On Caravan Talkies, if I assume an average of 50 vans were operational this quarter, our realization is upwards of ₹7 lakhs in Q1FY18, how much of this is sustainable?
- Kapil Agarwal:** This is the starting point. Caravan is giving very encouraging results. Clients like ITC, Emami, Adani Wilmer and Dollar Industries have advertised, also Tata Education Development Trust did activation where Aamir Khan came to our office and addressed ~25,000 people face to face in 25 different villages. These vans can do two way communication also. We have done a lot of innovation and recast our offering. If you recall, we actually froze the Capex in Caravan Talkies for the last two years. We said that till we don't have all the 100 vans generating revenues, we will not do further Capex. By the end of Q3FY18, we may have to restart our Capex as we are anticipating strong demand in Caravan Talkies.
- Urmil Shah:** Is ₹7 lakhs a quarter run rate sustainable across 67 vans?
- Kapil Agarwal:** Absolutely. We would be pushing it even higher. We target a revenue per van of at least ₹35 lakhs for the full year.
- Kapil Agarwal:** During three to four months of monsoon, Caravan Talkies used to completely shut down. In Q2FY18, some vans are running even during monsoon because we decided to keep this business active. It is not raining everyday everywhere. If clients want to buy 10 vans, we make him aware that if there is rain, the van would not run. So all throughout monsoon and even as we speak, we have 10 active vans and they are all being experimented by a large GEC Channel. Today, rural access is becoming extremely important for clients and they find Caravan Talkies a very potent medium to reach rural audience.
- Urmil Shah:** What is the weekly exit rate of UFO Framez?
- Ashish Malushte:** In Q4FY17, we were averaging a weekly revenue of ~₹4.5 lakhs. Towards the end, it was close to ₹5 to 5.5 lakhs and in this quarter it has moved in the range of ₹7.8 lakhs to ₹7.9 lakhs per week.
- Urmil Shah:** With regards the investment in Sujav Entertainment Private Limited, what kind of capital deployment are we looking at in the long term?
- Sanjay Gaikwad:** UFO is in the media business, we own media, we have to exploit media and we have to grow the media. I will tell you what is UFO's Vision and why FastTicket's acquisition is core to our primary business. We have not entered into the business of ticketing which is going to become a huge cash burning business. Today advertisement is the core business. If you see UFO's history, when we started in 2005 and advertisement media was never established because the industry was in digitization mode up to 2012. In 2012 digitization got over and the advertisement media got established. In the first seven years, growth came from the technology business as that was our primary focus. Screen growth and exhibitor and distribution revenues were driving our business, but

things changed once UFO's advertisement media business got established in 2012. We are now at an inflection point of growing our advertisement media business. From 2012, our advertisement media business has been growing and in Q1FY18 our total advertisement revenue as a percentage of the overall revenue is 32%. We believe that it will go up to 80% or 85% in the long run and that is when UFO emerges as a true media business that we conceptualized.

In 2012, when this media business got established, our CAGR was very high and now maintaining that CAGR is a big challenge and difficult as our base is increasing. The first inflection point happened in 2012 and now we are actually looking at the second inflection point. To maintain that growth rate, the second inflection point has to be achieved which requires three things to be delivered and those are Consolidation, Measurement and Execution. Our focus is on executing these three very soon and once we do that you will see that we will continue to grow our advertisement business, which is our core business. Whatever actions we are taking is towards these three inflection points and FastTicket acquisition is also towards this inflection point.

Firstly on Consolidation, today worldwide cinema as a media, is sold by one or two players only, for example in the US, UK or Australia as the media is seen seriously by the brand manager and Corporates and they have to talk only to one or two people. Unfortunately in India there are many people who are selling this media. Large multiplex chains are selling on their own. There are agencies who take the inventory from large multiplex chains and sell. Other digital integrators are selling their inventory. UMW was selling its own inventory until we started consolidating that. We entered into a strategic tie up with UMW and now we are working on various strategies to become as a single entity to sell as a large single media. Consolidation is a continuous effort of the Company and you will start seeing our efforts on an ongoing basis.

Secondly on Measurement and Research, unlike the already established multiplex players, where they provide measurements as they have their ticketing information, close to 4,000 UFO advertisement screens don't have this measurement. Out of these 4,000 screens, close to 1,000 screens are multiplex screens where the potential is equivalent to large multiplex chains in terms of the revenue generation capability. The challenge here is Measurement and Research. Going forward, the way Millennial consume media and the way brands are trying to target them is completely different and that is where the traditional media is going to go through complete transformation. Even we are looking at how we can transform UFO's media and make it more meaningful to brands. Hence, we are now going to focus on Measurement & Research to share details of the audience who watch our media and what they do. We are tying up with various technology companies also. Our core technology is extremely strong and we are already doing exhibition through our core technology. Now, the need is to make this media more meaningful to the Millennials and how we will remain more meaningful to brands. Efforts are going on in the direction of how to integrate the big screen with the small screen. FastTicket is just one of our strategic investments or the strategic route to help in Measurement & Research and also we are looking forward to introducing these innovative products. Most of the theatres today are seeing 30% to 35% occupancy. Through this acquisition and the product which we are conceptualizing should be able to address the empty seats and help us grow our business. We are not entering into a traditional ticketing business which is a cash burn business. We are looking at integrating existing screens, especially our screens present in tier-2 and tier-3 cities. We do not have

advertisements in large multiplex chains where existing players like Bookmyshow, etc., earn revenues. Our target is to bring screens in tier-2 and tier-3 locations online and bring Measurement & Research with innovative products which will help grow our media business in the long term.

Finally, on execution, although we achieved the first inflection point in 2012, over a period of time we implemented DCI / D-Cinema technology in some of the premium locations but the execution of advertisement in DCI / D-Cinema technology was not in our hand unlike in our own UFO-M4 / E-Cinema technology since it was conceptualized as a media business which ensures guaranteed playback. In DCI / D-Cinema technology, there was the dependence on operators for scheduling the advertisement and that is why we faced challenge. That is why we developed a technology like Download Box which a large Multiplex Chain is currently using and we have actually addressed this execution challenge.

All these initiatives are focused towards the media business which has significant headroom for growth. Therefore, we are going to focus more in this area and FastTicket acquisition is also towards this only.

Kapil Agarwal:

Sujav - FastTicket acquisition is towards development of certain apps which are almost ready, this is just the internal developmental efforts which is required and it is not about burning huge cash or giving guarantees to large multiplex chains or getting right to sell their box office tickets. These products are competition sensitive right now and we do not want to share those ideas at the moment. We will be unveiling those products one by one in due course.

Moderator:

The next question is from the line of Vimal Gohil from Union Asset Management Company.

Vimal Gohil:

The business mix has moved towards Corporate in this particular quarter while Government has reduced slightly, despite the improvement in business mix, why have our realizations not improved this particular quarter?

Kapil Agarwal:

We have delivered 24% growth whereas the media and entertainment industry has de-grown or has been flat. Our objective is to provide growth when our inventory remains unfilled at over 4.65 minutes, so the idea was to keep our head above water instead of being concerned about the rate increase. In the overall scheme of things, things will stabilize. If you see in absolute terms, the Government business has not de-grown. However as planned, the Corporate vertical has started accelerating. UFO Framez is all Corporate business and gets added to the Corporate vertical. Most of the Caravan Talkies' business comes from Corporate. This mix will keep changing quarter to quarter and whenever we see an opportunity, we will enhance the spot rate. After GST was implemented and with the continued impact of demonetisation and after a few of the large blockbuster movies failed, Q2FY18 has been more difficult than Q1FY18.

Moderator:

The next question is from the line of Megha Hariramani from Pi Square Investments.

Megha Hariramani:

How many vans do you have in Caravan Talkie and what is the realizations per van?

- Kapil Agarwal:** We have a total of 114 vans in the system. In Q1FY17, 91 vans were operational. In Q1FY18, we had 67 operational vans with a much higher revenue. The scope of work for each van keeps differing from client to client, broadly the realization per van has more than doubled from last year.
- Megha Hariramani:** Does the operational vans number vary every quarter?
- Kapil Agarwal:** Yes it does. April was a buildup phase, the total number of vans were less in the month of April. By middle of May we reached to 67 vans and by and large we remained there in June. The good part is that during monsoon also some vans are operational in select locations and they will also be contributing to the overall average revenue because till last year, monsoon used to be a zero van operation.
- Megha Hariramani:** What will the operational van number be for FY18?
- Kapil Agarwal:** In Q3FY18, we should go to full capacity and by the end of Q3FY18 we expect that we will have to do more Capex because right now we have frozen the Capex. We will do more capex only when at least 90 to 100 vans are continuously operational and generating revenues. We are expecting all vans to be sold in Q3FY18 and then from Q4FY18, we may have to enhance the number of vans. This business is gaining good traction from clients.
- Moderator:** The next question is from the line of Dimple Kotak from SKS Capital & Research.
- Dimple Kotak:** After adding the UMW Screens, what is the revenue potential and the incremental revenue?
- Kapil Agarwal:** The incremental revenue potential per screen for the UMW screens should be similar to what we have on the UFO screens. The integration completed towards the end of Q1FY18, Q1FY18 has not seen any growth. Like for like Advertisement growth was 22.6% on UFO screens, which means the growth contribution of UMW was 1.6%.
- Dimple Kotak:** What is the total impact on revenue and on profitability for FY18 on account of D-Cinema Sunset?
- Ashish Malushte:** We had given an indication of Sunset impact for the whole year, which was to the tune of ₹22 Cr to ₹24 Cr of EBITDA of which approximately ₹5.9 Cr to ₹6.2 Cr has panned out in Q1FY18.
- Dimple Kotak:** Will the remaining be panned out across the year?
- Ashish Malushte:** Yes and the full impact of the sunset will be coming by June 2019.
- Dimple Kotak:** Do we expect to be EBITDA positive in Caravan Talkies for the end of the year?
- Kapil Agarwal:** Yes.
- Dimple Kotak:** What the EBITDA margin guidance for the year?
- Kapil Agarwal:** For the whole year, EBITDA margin will be around 30%.

- Dimple Kotak:** What is the overall revenue growth guidance?
- Ashish Malushte:** As far as topline is concerned, we focus our guidance only on the advertisement growth.
- Dimple Kotak:** Is the advertisement revenues growth guidance 30%.
- Ashish Malushte:** In the opening remarks also, we have reiterated the advertisement growth guidance of 30% for the full year.
- Moderator:** The next question is from the line of Amit Kumar from Investec Capital Services.
- Amit Kumar:** The theatres that you partner with have a fairly large business coming from regional films and we have seen the taxation barring a couple of markets actually go up from 0%, 5% or 10% to 18% because of GST, do you foresee any screen closures and have seen pressure on that side?
- Kapil Agarwal:** We have seen very marginal impact, people are disturbed about this imposition of GST. Unorganized players are finding it difficult to comply with the regulation and the formalities, but we are not seeing any major impact, over next one or one and a half quarters it should stabilize.
- Amit Kumar:** What kind of revenue generation would be there in a single screens given their ARPU's are very low? Multiplex screens typically generates ₹2.5 Cr or ₹3 Cr per screen, do single screens come into the composition scheme or do they have to necessarily comply with 18% GST?
- Kapil Agarwal:** As far as ARPU is concerned, this is how the industry is divided and this is how these screens and their business offering has been designed. There is no surprise that the ARPU is one-third or one-fifth of multiplexes because the investment of the multiplex is very high, while the single screens are inherited screens. They do not have any new Capex, while when any multiplex is built, there is an investment of ₹2.5 Cr to ₹3 Cr per screen in a mall. So, they are happy even at a one-fourth ARPU. So far, as people are coming to terms with the new regulation. It is difficult to say if they are getting into the composition scheme or they go into the full-fledged filing of returns of GST. This is the individual's prerogative. It is very difficult to give you a standard answer for ~2,900 single screens that in which category these screens fall as some are present in small villages and some in large cities.
- Ashish Malushte:** We will be able to give you clear details towards the end of this calendar year because people are still figuring out their respective tax structuring. As far as the composition scheme is concerned, we have received very few request, but it is too early for us to actually assess the whole situation.
- Amit Kumar:** We are doing some analysis on emerging advertisement mediums which have come up in the last 10 years, be it radio or digital which have established themselves. We see that long-term deals are not only done with advertisers but long-term deals are done with large ad agencies as well. Do you have existing tie-ups agencies? And, are you thinking on those lines because they take a portion of your inventory and then the agency has to cross sell it to their client base?
- Kapil Agarwal:** We have tied up with all the agencies. The overall contribution of the agencies in our business is less than 5%. It is a fraction and the reason is that our ARPU is lower than other mediums. So, we

retracted from agencies and we realized that we should be building our business directly and try to push our business directly in order to be have the highest pricing.

Amit Kumar: As I understand, you don't have long-term deals with agencies but you can offer them inventory when their clients want it.

Kapil Agarwal: Yes.

Moderator: The next question is from the line of Mayur Gathani from OHM Group.

Mayur Gathani: Have you got any price increase from the Government?

Kapil Agarwal: Not yet. We have been pushing it. We cannot comment when it will happen, it is not in our hands, but we are getting closer to it.

Mayur Gathani: This has been pending since a long time, when was it last revised?

Kapil Agarwal: There has never been a revision. The rate was fixed in 2010. We are operating on the same rate since the last seven years and that makes our case very strong with the Government.

Mayur Gathani: Are we working to empanel Caravan Talkies with DAVP?

Kapil Agarwal: Yes we have already made an application.

Mayur Gathani: Will the pricing be similar to theatres?

Kapil Agarwal: Pricing for Caravan Talkies will be very different from theaters because Caravan Talkies is an outdoor medium. Caravan Talkies has external branding and activation while Cinema is on-screen advertising only. Caravan's scope is far larger than on-screen advertising, so the pricing guideline for this medium is going to be very different.

Mayur Gathani: Will it be a new set of pricing?

Kapil Agarwal: Cinema advertising rate is per 10 second, Caravan Talkies will be per van advertising for the month.

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

Neeta Khilnani: Would we be launching your innovative products before the full impact of D-Cinema Sunset sets in by June 2019?

Sanjay Gaikwad: By June 2019 most of the sunset clause effect would be observed, before that happens we will be executing most of our strategic initiatives and the second inflection point. The timeframe we are looking at is one and a half year.

Neeta Khilnani: What would be the Capex during this time?

- Kapil Agarwal:** We have been giving continuous guidance towards the replacement Capex in the core business. Our new initiatives are primarily innovation led and they are not very Capex intensive. It is basically to grow the core business more rapidly.
- Moderator:** The next question is from the line of Janieel Jhaveri from J&J Holdings.
- Jaineel Jhaveri:** Do we have a plan for the ₹93 Cr net cash?
- Kapil Agarwal:** We have already declared 100% dividend and that dividend itself is going to consume quite a bit of cash. We have also made a commitment with the market that minimum 25% of PAT will be distributed and instead of that our 100% dividend with dividend distribution tax is around 52% of the FY17 PAT. We continue to be a cash generation business and we are paying dividend and are also incurring replacement capex. So all this is how the cash is being utilized.
- Sanjay Gaikwad:** We keep evaluating avenues to reward shareholders in a most tax effective manner.
- Jaineel Jhaveri:** Is there a thought process of a buyback because the share price from the IPO time has also come down?
- Sanjay Gaikwad:** That kind of avenues are also getting explored because we find buyback one of the most tax efficient way of doing it. There was a reason we had to go the dividend route because there is an ongoing merger process within the Companies.
- Jaineel Jhaveri:** Is the merger complete?
- Ashish Malushte:** From our side the merger process was completely brought under control. Unfortunately there have been two significant regulatory changes, once in December and the second was in the month of April on the 12th and the April 12th change in regulation now requires any international merger to be getting a clearance from RBI whether inbound or outbound and unfortunately that was not the case when we have started the merger one year back. It was only towards the finishing line because our NCLT hearing was on April 19th and this change in law came in on April 12th. Unfortunately there was change in law without making it clear whether it is going to apply for in process schemes or not, it got applied to us also and thereafter RBI came out with their draft guidelines for the process immediately in the month of May, but thereafter they have not yet finalized it. We are in the first four or five Companies waiting for RBI to give clearance to the process and as a result of which for completely external factors our merger has got delayed for about six months. It is very unfortunate but we have to bear with it because it is on account of a change in law.
- Jaineel Jhaveri:** Do you expect it to complete this year?
- Ashish Malushte:** It can complete one week after RBI finalized the process of approval which is at the draft stage now, unfortunately we do not know when RBI will formalize it.
- Kapil Agarwal:** RBI came up with the draft guidelines in the month of May. They gave certain period for reactions and feedback and we should have actually been notified by now. It is now overdue, as soon as RBI

notifies the guideline and we will wait for the next NCLT hearing and finishing it because all formalities are complete.

Moderator: The next question is from the line of Anup Nambiar from Equity Intelligence India.

Anup Nambiar: How many NOVA Cinemaz screens do we operate and are we setting up new theatres or are existing screens being converted?

Sanjay Gaikwad: India is an under screened country and the screen density is skewed towards major metros, which is being addressed by most of the organized large multiplex chains, but the real requirement of additional screen is in Tier-2 and Tier 3 cities. That is why we started NOVA Cinemaz which is a franchise based concept. NOVA Cinemaz has three types of projects under it, 1) Brownfield project - to build NOVA Cinemaz screens in Tier II and Tier III cities where small shopping complexes are already built and would want an anchor to attract footfalls 2) Greenfield project – to build NOVA Cinemaz property under a standardized model with two screens along with retail space or multipurpose hall for people who own land and would like to utilize that space 3) Renovation project - to renovate single screens and brand them under NOVA Cinemaz. Most of the single screens in India had to go through a challenging phase of getting content which got addressed by digital cinema and the content is now available but there is a need to revamp these single screens and we are continuously monitoring which screens are meaningful to the industry where further investment can increase the revenue potential for both the screen owners as well as for the content owners. We are looking at investing in the initial period in 50-100 prototype screens for an amount up to ₹10,000 per seat as our contribution to build this franchise brand and charge a fee to recover the small investment which we will make. Also, we will charge a franchisee fee to provide all services to the franchisee for standard SOPs, content programming services, bringing concession or tying up with standardized F&B vendors. Today, there are six operational screens under NOVA Cinemaz and we are expecting another five to six screens to be operational by Diwali, so about 10 to 12 NOVA Cinemaz screens should be operational post Diwali. NOVA Cinemaz primary objective is to start re-creating screen growth driver for the media business. NOVA Cinemaz screens will increase our captive strength for my media business and we are currently at an inflection point. It would take at least another one to one and a half years to set up prototypes and we have set aside around ₹15 Cr of investment for setting up such prototypes which we have communicated in previous conference calls also. Going forward, NOVA Cinemaz is going to be purely a franchise based model.

Moderator: The next question is from the line of Harsha MVR. from Photon.

Harsha MVR: When you say VPF E-Cinema and D-Cinema, E-Cinema is not exactly VPF because VPF is only paid to integrators until they breakeven on their investments but this is content delivery charge which is charged every time a movie releases through your platform, right?

Sanjay Gaikwad: To that extent you are right. E-Cinema revenue is highly subsidized, what we charge the industry is not to the extent of D-Cinema VPF, which was charged because the D-Cinema equipment cost was high and there was a sunset element towards that. In E-Cinema we are providing the entire service, right from delivery, equipment maintenance and replacement because it is perpetual in nature. In D-

Cinema after the equipment investment is recovered, then the onus of maintaining and replacing the equipment moves back to the theatre. To that extent E-Cinema is different and is a perpetual model.

Harsha MVR: Whenever D-Cinema sunset happens, whatever D-Cinema screens you have in India, can you show non Hollywood studio movies and get this content delivery charge?

Sanjay Gaikwad: Yes. The D-Cinema revenue where we have Sunset by agreements are going out of VPF contracts only for Hollywood Studios.

Kapil Agarwal: Rest of the VPF continues and the delivery charge also continues whether it is D-Cinema or E-Cinema.

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

Urmil Shah: With regards to UFO Framez, how many DSAs have we tied up?

Kapil Agarwal: We have over 600 clusters all over India, currently over 400 DSAs are already appointed and working.

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

Amit Kumar: You expect a 30% growth in the Government revenue as well, does that factor in a price hike?

Ashish Malushte: This 30% is without any price hike. We have been camping with the Government for last five years, we do not know when the price hike will happen, so any growth projection that we are giving right now is without the price hike. Even if the price hike happens, we not think that they will have a dramatic impact on the overall growth because the budget of the Government and different departments are fixed at the beginning of the year.

Amit Kumar: If a price hike comes during the course of the year, it does not impact this fiscal year, it will start impacting from the next fiscal once the Government orders comes out from the new budget, right?

Sanjay Gaikwad: When we talk about the Government advertising business, it comes from the Central Government, State Governments and PSUs. Their budgets are not fully utilized. If the price is hiked, there might be some upside in the current year also and it is not correct to say that it will only happen in the next year. But to what extent is the upside is very difficult to say.

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

Jaineel Jhaveri: The depreciation this quarter was lower than the last few quarters, will it stay at this level?

Ashish Malushte: This depreciation is more or less a stable number. It will only go up depending upon how much Capex we have in the current year.

Jaineel Jhaveri: It is around ₹20 Cr per quarter now.

- Ashish Malushte:** It can go a little higher because there would be Capex that would have got added last year towards the second half, the depreciation impact of which may not have happened in the current year so far to the full extent.
- Jaineel Jhaveri:** Whenever a new van is added, how many years is it depreciated over?
- Ashish Malushte:** Vans are considered fixed assets and those are depreciated over five years.
- Moderator:** The next question is from the line of Kashyap Jhaveri from Capital72 Advisors.
- Kashyap Jhaveri:** Our advertisement revenue share as a percentage of our advertisement revenues excluding Caravan Talkies has gone up from 31.4% in Q1FY17 to about 33% in Q1FY18, any particular reason for that despite the fact that we have seen a fairly large advertisement revenue growth even if we exclude Caravan Talkies?
- Kapil Agarwal:** Globally only one or two players sell all the cinema advertising and they are not the multiplex owners, in the US, NCM and Screen Vision have right of selling advertising for over 32,000 screens of Regal, AMC and Carmike who do not sell their own advertising. In India everybody is selling the advertizing, we are now moving towards consolidation and we believe that as non-multiplexed player will be in the best position to consolidate the advertising of various fragmented players as well as of various multiplex chains over a period of time and we should become the single largest player. Now in a bid to moving in that direction, we are buying out the inventory, consolidating the inventory of various players at a fixed price which is not necessarily at 25% revenue sharing because 25% revenue sharing is where we are investing in the digital cinema equipment. For example, this quarter you will see the sharing going up from 31.4% to 33%, major impact would be because of UMW, because UMW is not on a 25% sharing because UMW has invested in the digital cinema equipment by themselves. We have bought their inventory at a fixed price. That is why the percentage of sharing overall will go up.
- Ashish Malushte** The impact of this one significant UMW deal has got 1.7% increment sharing when you are calculating the percentage hike from 31.4% to 33%.
- Kashyap Jhaveri:** Going forward, should one expect this ratio to inch up given the growth that you are anticipating?
- Sanjay Gaikwad:** Whenever we are aggregating this inventory, you will start seeing the higher percentage share in the short term. However, when my advertisement revenue per screen starts increasing and grows at CAGR of 25% to 30%, this percentage will go up and then will start coming down over a period of time. Over the long term, we are expecting the sharing to be between 27% and 30% at the maturity level. In Q1FY18, we aggregated UMW screens and it has impacted but by the end of the quarter that impact will come down because we will start generating more revenues on those UMW screens. Fixed price contracts will have higher impact initially, but eventually it will come down.
- Kashyap Jhaveri:** One on the balance sheet, in our annual report for last couple of years, we have been maintaining a high cash balance in the current account of about ₹40 Cr, any particular reason for that?

Ashish Malushte: This money is lying in the international subsidiaries, which is our Dubai operation. In the international market, you get very low interest but on a periodic basis this money is brought back to India and used in the Indian operations in the form of dividend payout.

Moderator: The next question is from the line of Arnesh Doshi, an individual investor.

Arnesh Doshi: Do you see any threat as mainstream directors are also venturing into web series, do you think the screen space will start getting less viewership three to five years down the line?

Sanjay Gaikwad: We strongly believe that this will never happen but there is no way we can justify that. As seen in the US, studios do windowing of their content ensuring that the movies are first released in theaters, the value of the product get established and then they make more money on other platforms.

Moderator: Thank you. Ladies and gentlemen that is the last question. Ladies and gentlemen on behalf of Axis Capital that concludes today's 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.