UFO Moviez India Limited

Q1FY20 Earnings Conference Call

August 14, 2019

MANAGEMENT:

MR. KAPIL AGARWAL - JOINT MANAGING DIRECTOR, UFO MOVIEZ INDIA LIMITED

MR. ASHISH MALUSHTE - CHIEF FINANCIAL OFFICER, UFO MOVIEZ INDIA LIMITED

ANALYST:

MR. KARAN TAURANI - ELARA SECURITIES PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1FY20 Earnings Conference Call for UFO Moviez India Limited, hosted by Elara Securities Private 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. I now hand the conference over to Mr. Karan Taurani from Elara Securities Private Limited. Thank you and over to you Sir!

Karan Taurani: Good day everyone and welcome to this concall of UFO Moviez, Q1FY20 results. From the management side, we have got Mr. Kapil Agarwal who is the Joint Managing Director and Mr. Ashish Malushte who is the CFO of the Company. We will start the call with Mr. Kapil giving some initial few remarks and then we can start with the Q&A. Over to you Sir!

Kapil Agarwal: Thank You, Karan. Greeting everyone and thank you for joining us on UFO's Q1FY20 earning call. Let me quickly run you through the headline numbers and key operating highlights for the quarter before we open the floor for questions.

Consolidated Revenues stood at ₹1,268 Mn. EBITDA increased 2.0% to ₹289 Mn. PBT grew 15.3% to ₹135 Mn and PAT increased 8.1% to ₹82 Mn. We adopted Ind AS 116 effective April 1, 2019 using the modified retrospective method. The adoption of this standard did not have any material significant impact on the profit for the period and earning per share.

Total Advertisement revenues during the quarter stood at ₹440 Mn. In Cinema Advertisement revenues grew marginally by 0.2% to ₹401 Mn. Corporate advertisement continued its growth trajectory delivering 18.5% higher revenue during the quarter. The Government Advertisement revenues, as expected, declined by 23.5% to ₹134 Mn as the entire period from the imposition of the Model Code of Conduct till the re-elected Government presented the Union Budget was impacted. So, the whole quarter from March 10 to July 5 was wiped out. Inventory utilization stood marginally higher at 4.64 minutes per screen per show compared to 4.46 minutes in Q1FY19. The Advertisement revenues have remained slow in the month of July on account of the ICC World Cup and slowdown in Central Government spending pending budget allocations. Given the seasonality of the business and current challenging macro-economic environment, we stay focused on full year visibility and are confident of delivering reasonable annual growth.

Caravan Talkies revenues were also impacted due to slowdown in Government business. The revenues for the quarter were lower at ₹48 Mn as against ₹56 Mn in Q1FY19. However, better realization per van coupled with cost optimization initiatives undertaken by the Company, resulted in EBITDA of ₹1 Mn during the quarter as against an EBITDA loss of ₹8 Mn in Q1FY19. So, effectively we have been EBITDA positive in this quarter also.

Further, moving to the balance sheet, as on June 30, 2019, Net Cash stood at ₹752 Mn which excludes finance lease obligation of ₹65 Mn on account of Ind AS 116 as compared to ₹1,189 Mn as on March 31, 2019. This is after distributing ₹940 Mn as dividend (including DDT). Also, DSOs have improved to 95 days during the quarter ended June 30, 2019 compared 119 days as on March 31, 2019.

Finally, on Nielsen report, as I mentioned in the previous earnings call, the Advertisement Sales Teams continue to socialize the outcomes of the market research with the select advertisers. We are also planning to make the results of the study public at an event in near future.

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

Moderator: The first question is from the line of Vikas Jain, an individual investor.

Vikas Jain: In the opening commentary, you specified the reasons because of which the revenues have seen a setback. i.e. election and the Government spending. Would it be possible to share what kind of revenues Avengers: End Game has generated?

Kapil Agarwal: Avengers: Endgame was not a very big movie on UFO's network. Being a Hollywood movie, it is more relevant to the network of multiplex chains. Of course, it released on a certain number of UFO screens, but, Hindi and Regional are our major movies. So, actual numbers will be irrelevant.

Vikas Jain: It has not contributed much to the topline if I understand this correctly?

Kapil Agarwal: Right, any quarter which is very heavy on Hollywood movies and less on Bollywood movies will benefit multiplexes more than us in terms of the advertisement revenues.

Vikas Jain: The finance income looks quite high when compared Q-o-Q or Y-o-Y, what has led to the spike of ₹490 Mn?

Ashish Malushte: It is a standalone number. That number includes the dividend that has been received by the holding Company from its 100% subsidiary and that gets categorized in standalone numbers under that head, but if you go to the consolidated number, you would not find that number because that gets eliminated being an intercompany transaction.

Vikas Jain: What is the guidance for the remaining quarters of this year in terms of the margins that would prevail because you know the recent announcement from one of the lead players in the internet space is about bring the first day first show direct to the home, do you see that as a disruptive beginning of this kind of a business that we have or do you think that UFO Moviez would remain unaffected because of these kinds of moves?

Kapil Agarwal: We all have seen that announcement and we have also been seeing the reaction from various quarters. Our view is slightly different on this. First and foremost, cinema is a big screen social viewing experience which is highly immersive compared to viewing a web series or a movie at home on a small screen. The craft of directing, acting, cinematography, etc., can be best appreciated and enjoyed if the experience is bigger in optics and sound. A lot of movies have already been coming on various OTT platforms in the past as well, but people used to go to watch the movie first in the theatre while knowing that in 8-12 weeks' time, they will get to see it for free, but it is people who want to go and watch in cinemas. Secondly, content produced for cinemas is completely different in our view from the content for small screens, which is consumed at home. The likes of Netflix and Amazon have actually expanded the reach of content and have led to the emergence of short format content which has gained popularity on the OTT platforms. However, the new movies are continued to be enjoyed by viewers in the cinema theatres. In fact, in recent years, ever since the emergence of OTT platforms post broadband revolution, the footfalls in theatres has actually gone up Y-o-Y not only in India but, also internationally. The preference for watching new movies in theatres is not only because of the immersive large screen experience, but it is also closely linked with family outing. And, the other issue is, which we have also been repeating before this announcement about windowing of movie content which is always released in the cinemas first followed by other mediums and that is what creates relevance from a commercial point of view for the movie. The directors and actors aspire to be seen on the big screens first to showcase their art. So, cinema really establishes the equity of the movie content, which further enhances the value of content when monetized on other mediums after the window of cinema is fully exploited in the first few weeks. The argument is that big cinema screen alone can give rise to stars in super hits. The small screen viewing of film content will not be able to replace the ability of the cinema theatres which is a large format surround sound and big screen experience. We therefore, feel that the first day first show offering at home will only further expand the appetite for consuming content in cinemas, as we have experienced in recent years and the other issue which I would like to mention here is if you have seen recently what OTT platforms have done or what the availability of content in movies on the small screen has done? In the recent past, it has actually made the content reach or available to people who did not have access to this content. There are only ~9,000 screens in the Country, 1.3 Mn population, 7 screens per million of population, out of which 8,000-9,000 major towns in the Country and just 2,600 towns have cinemas. This is going to make the content available for the people who did not have the access to the movies. And, this will only help expand the reach. Not really impact.

Vikas Jain: Thank you so much for explaining this in detail and I really appreciate the analogy that you drew from having the content now being accessible at a smaller screen would further increase the footfall to the multiplexes while I appreciate and agree to the fact to a large extent. On the other hand, perhaps I believe that the OTT and cinema content are far from being compared to each other, perhaps at this point in time, OTT is in pretty nascent stage is what I believe and perhaps they are not backed up by the celebrity and the hype that a movie enjoys at this point in time, it is probably comparing a Mc Donald's Burger with a fine dining at this moment is what I can vaguely draw an analogy to, but yes that holds lot of water that fits to fuel up the content demand and people might go and watch the movie in theatres, but my question then further concludes to the fact that yes, this is correct that the people go in a cinema hall for an immersive experience rather than just watching the content, but given the slowdown in the economy where companies would have its challenges in selling what I heard from Mr. Berry a couple of days back was that they see challenges in selling a ₹5 biscuit, so perhaps I can cut down my experience need and just limit myself to the content. So, my question was also emerging from that aspect, but yes, you have fairly given me a clue of what is your long-term thought on that one is.

Kapil Agarwal: When Mr. Berry talks about the biscuits which are a purely discretionary expenditure. If you see today, you will immediately argue that cinema is highly discretionary. It is not a compulsory expenditure, but if you see the human nature now after roti, kapda and makaan, entertainment is becoming the fourth necessity of the human being and the way the content is being consumed. Imagine from one Doordarshan Channel, 30 years ago until now, 800-900 channels in the Country of cinemas and all people are still spending money and it is almost becoming a necessity. ~1,800 movies are released every year. How many movies are really going to go to the small screen? And, whenever in the past, there has been a slowdown, people actually consume more entertainment. Even in the slowdown of 2008-09, we witnessed a higher trend of movie going during that period. So consumption actually goes up during a slowdown.

Vikas Jain: In the last one year, the share price has taken a steep correction from its yearly highs. I understand that there has been a fair amount of dividend distribution the Company has done in the recent past. Is there any other way the Company is thinking or considering about creating shareholder value to bring in confidence in the equity market?

Kapil Agarwal: We are fairly disappointed with the way the stock price has behaved, which is really not in our hands. We have been doing our best. How many Companies will you find in the Country with this kind of margins and cash generation. We are talking relative and not comparing with very large Companies. Relatively, the kind of dividend records we have already distributed is over 600% dividend in the last four years. We ourselves are disappointed and obviously as Management we are continuing to take measures which should create more shareholder value and put things on a better track, which we will keep admitting from time to time as the plans mature.

Moderator: The next question is from the line of Varun Ghia from Equitree Capital Advisors Ltd.

Varun Ghia: What is the guidance on advertisement revenue growth, because the plan was to increase the advertisement revenue per screen minutes to ~8-9 minutes, how do you plan to achieve that?

Kapil Agarwal: We have been taking various measures which we have been sensitizing the market about. As mentioned in the opening remarks, in Q1FY20 there was a slowdown in the Government business; also there were various events like the World Cup, IPL, which happened in Q1 which slowed down advertisement growth. But, we have always said that ours is not a quarterly business, it is an annual business. We stay focused on the full year visibility. We have refrained from giving any guidance in the past and would like to continue the same practice of not giving any guidance and will discuss it Q-o-Q.

Varun Ghia: Any update on the merger?

Kapil Agarwal: As of now, there is no development. As we had mentioned, the reduction in our stock price forced us to withdraw from the merger because the equity shareholders of Qube were not willing to bring down their ask price corresponding to our stock price. However, both UFO and Qube's management as well as promoters feels that this is a very important event to happen. We continue on a daily basis to work towards it. We are working on ways and mean to somehow combine. We are trying to reach a meeting point with their selling shareholders and promoters.

Varun Ghia: What are the growth factors you are looking out apart from the advertisement revenue to increase the overall topline and bottomline?

Kapil Agarwal: We are majorly concentrating on advertisement revenues. Second, we are looking at the growth in Caravan which has shown a healthy trend in the last year and third, if we can do the combination with Qube, that will be very helpful. These are the three major things that we are looking at in the short to medium term.

Moderator: The next question is from the line of Ritesh Bakshi from Padmee Capital.

Ritesh Bakshi: What is the status with the NCLT order and the appeal against it?

Kapil Agarwal: As we mentioned last time, we have filed the appeal with NCLAT and that appeal is coming up, already 2-3 hearings have taken place, they have to ask for an answer from the Regional Director and all are in place and the next hearing is in the first week of September.

Ritesh Bakshi: Do you also see this to be an overhang on the stock price because there is no direction to this whole issue?

Kapil Agarwal: Firstly, you would be the better judge of that as you are in the stock market. We in the Management keep doing our job. Second, this appeal is more in terms of getting the remarks in the order expunged, even if we win the appeal, it is not that the merger is going to happen. There is no reason for the overhang because the NCLT order which came against the scheme was for a particular scheme we had filed. One of the major participants withdrew from that scheme. So, the scheme became infructuous and that cannot be implemented anymore because of the withdrawal of one particular participant. We have appealed at NCLAT because we want to get the remarks mentioned by Honorable NCLT in the order expunged. We do not see any reason of overhang because even if we win the appeal, the merger is not going to happen. We are working on alternative routes effecting the merger.

Ritesh Bakshi: Right, but the NCLT order was very critical in the workings, management, which I, as an investor believe it is definitely not true, but do you think the market senses otherwise or the market thinks in that favor because let me be very honest the order was very critical.

Kapil Agarwal: Exactly, it is more to get those remarks expunged, which we believe are not true. We used the best lawyers and consultants. Our Company complies with all laws and we run with full Corporate Governance. Since our listing, you would have not seen or heard anything negative which is against the law that we have done or anything against the Corporate Governance that we have done. Every filing is in order and every clause or every law is complied with. This is how we manage the Company with full Corporate Governance. We ourselves were very surprised and disappointed with the kind of remarks which came in. We do not know for what reason those remarks came in but we are still at a loss. We do not think that anybody in the market who has been following our Company would believe in those remarks. Like you said, we do not think anybody will believe in those remarks because those remarks once they come, there should have been something to support that in the market domain. So, we do not know why the stock price is where it is now. And, we have given one of the finest dividends, we declared 300% dividend. We have believed in distributing the profit to the shareholders and declared 80%, 125%, 150%, 300% in the last four years i.e. 605% dividend in the last four years and this dividend demonstrates Corporate Governance of the Company. It demonstrates that we are dealing in real cash. This is real performance of the Company. We have been constantly operating at a very healthy profit margin. Look at the multiple that we are getting in the market versus others. We ourselves are disappointed, but we do not think it should be anything to do with the NCLT order, because everything is in the public domain. Just one order, it does not mean that every right becomes wrong.

Moderator: The next question is from the line of Krunal Shah from Enam Investment and Services Pvt Ltd.

Krunal Shah: Why has the digitisation income gone up sharply and what would that relate to?

Kapil Agarwal: In December last year, we had acquired a Company called Scrabble Digital Limited, earlier we used to own 33% or one-third of this Company and 67% two-third was with external shareholders, so it was shown as the associate income and the net profit used to be considered in the bottom line and that too 33%. Now it is 100% subsidiary, so that income is being recognized as a digitisation income and this Company is in the business of digitising the 2K content.

Krunal Shah: In Q1FY20, the run rate of ₹54 Mn of digitisation income, is it a sustainable run rate? Is there any seasonality?

Kapil Agarwal: It is sustainable. Q-o-Q it will vary overall, but generally in the past, the revenue of the Company has been between ₹200-250 Mn annually. In one quarter, it may be ₹50 Mn, one may be ₹60-65 Mn and one may be ₹45 Mn, but overall it is ₹200-250 Mn annually.

Krunal Shah: In the P&L, why has the other operating direct cost gone down sharply Y-o-Y to ₹147 Mn from ₹181 Mn?

Ashish Malushte: We had lower other operating direct cost primarily because of curtailed operations in Caravan.

Krunal Shah: In Caravan, we saw an EBITDA breakeven with lower revenue this quarter so that was because of the curtailed expenses and focus on more profitable business, is that a good understanding?

Kapil Agarwal: More profitable business and we have also mentioned 2-3 quarters ago, that during monsoon season the business is not there, we are utilizing that to have better negotiation and we did not bring down the prices in desperation, despite the fact that the vans were not running. Initially to establish the product, we had to sell it at a lower price, but then we started increasing the prices and started doing the business at higher operating margins. We can sell all 100 vans today if we bring down the prices, but we would like to do more business with 50-60 vans, which is where we are making a steady operational profit than actually running the vans at a loss.

Krunal Shah: What would be the cash on the books currently after the dividend has been paid off?

Ashish Malushte: As on June after distributing the first leg of the major dividend which was ₹27.5 per share and separately the dividend distribution tax after doing that kind of an outflow which was to the tune of ₹940 Mn, the net cash in the books as on June 30, 2019 stands at ₹752 Mn which excludes finance lease obligation of ₹65 Mn on account of Ind AS 116.

Krunal Shah: Can you share some update on NOVA? What is the number of screens there? What is the target there for this year?

Kapil Agarwal: NOVA is a long-term business and it is going to have a long-term impact. Currently, we have 47 screens under the NOVA brand in different models. And, now we are seeing which model is more profitable and which we should push in the market. It is a slow business because you have to construct new cinemas, gain some experience, see which model is better, there are models where we only franchise our names, 100% investment is made by the cinema owner, somewhere we are taking the management control, somewhere we are making one-third of the investment in the refurbishing of the cinema and we charge a royalty so we are experimenting with different models. We believe it is a long-term business and this will help us to stabilize and enhance our screen count and bring more control over the advertising business.

Krunal Shah: The number of screens again has gone down this quarter, Q-o-Q 97 screens have gone. The reasons for that still remains the same probably screen upgrading and/or closing down?

Kapil Agarwal: The good part is there are lots of places where these low-grade screens are shutting down. In fact, in the last one year, if you see Q-o-Q, the overall numbers of multiplex screens have increased on a net basis, which are highly profitable in terms of VPF, rental and advertisement revenues. These are the highest potential screens while some low-grade screens have shut down. This has been a continuous trend, 20-50 screens, plus minus will always keep happening. A lot of the screens go and comes back. On a net basis, there is a reduction in the number of screens. Through NOVA and other measures, we are continuing to work upon and implement strategies to arrest this trend. For example, through NOVA Cinemaz, a low potential screen can be upgraded and it can become a high potential screen, we will convert that and will make some investments also in that screen. Then we have also got into programming were low grade screens which were not getting content and a lot of distributors were not getting the content to these theatres because of the virtual print fee that we charge. So, we started a new scheme few months ago wherein we said that instead of paying us nothing we will take the revenue share, if the cinemas start getting the content. If they get the content we get some revenue share, even if it is lower than the VPF, but then it kicks off the advertising business. Once we shore up the advertisement business and the footfalls are there, we charge VPF on a per show basis on the advertising screen. So, we keep taking various measures like programming, revenue share in lieu of VPF, multiple models in NOVA Cinemaz, etc. This is what we are trying to correct and arrest the trend of closure of screens. In the long run, net-net we should start maintaining the number of screens.

Krunal Shah: In case of multiplex process, the lower version of screens, most of the multiplex screens that we are adding would those be from the screens which are already there on the platform but are upgrading to multiplexes or fresh multiplexes?

Kapil Agarwal: Both, there are lot of upcoming screens in Maharashtra, Gujarat and Punjab. Currently, the major multiplex chains are present in less than ~200 cities and towns. When we were merging with Qube, together we were present in ~2,600 cities and towns. Multiplexes are present in less than 200 cities and towns which is a subset of those 2,600 cities and towns. That means we are also present in one form or the other between UFO and Qube in all those 200 cities and towns. As per census data, there are almost 8,000 cities and towns in the Country which are called urban cities and towns and only 2,600 have the cinemas. There is a lot of scope for new screens, which people are realizing and a lot of local players with the help of us like NOVA Cinemaz who did not have the technology plus smaller chains like Mukta A2 Cinemas, Movie Time, Maxus, other smaller chains, they are all now going to these regions who are on our platform and pushing a lot of new screens. Second, it is also conversion/upgradation of some low grade single screens to multiplexes. In NOVA, in few properties, where we have shut down our low grade screens and converted into a multiplex of 2 or 3 smaller screens, instead of having 600-700 seats single screen. That is where you can have different profiles of audience, different kind of revenues like VPF, different financials and different F&B revenues which although we don't charge affects our advertisement revenues.

Krunal Shah: Are you sharing any view or guidance from the Government part of advertisement for the full year, how do you see it shaping up?

Kapil Agarwal: We have always stayed away now, at least in the recent quarters from any guidance. The Government business has always surprised us on a Q-o-Q basis, but on an annual basis, we are seeing a steady growth. We had anticipated that Government will grow steadily in the last five years and it has grown absolutely steady, it is giving a healthy growth on an annual basis. It always surprises us that how in one quarter we end up doing ₹100-150 Mn of business and in other we end up doing ₹500 Mn of business. We were surprised in Q1 for example, when the elections happen Government does not advertise, but the political parties advertise. So, that business gets compensated by the political party business. Even in the State elections, we got a lot of business from the political parties. This year, even in the General elections, we were surprised that there was hardly any business from any political party. None of the political parties advertised on a central level apart from some local level advertising in 5 to 10 screens plus/minus. So, the compensation which we would normally anticipate during the election time when the Government cannot advertise did not happen as expected but the political parties did advertise. The revenue varies on a quarterly basis but we are focused on an annual basis. This is the reason we mentioned even in the opening remarks that we want to focus on full year visibility and ours is not a quarterly business.

Krunal Shah: Q1 was weak because of elections, but Q2 after the Government has come in the mandates have been given, has there been a fresh allocation to the exhibition related advertisement, is there some sense you are getting on that?

Kapil Agarwal: Q2 continues to be weak as far as Government spending is concerned. Because allocation happens after the Budget which came on July 5 post which it goes to all the ministries and the individual campaigns then get approved. The Government formation takes some time, about one and a half months before any movement happens. Then the Budget takes places post which they start forming their views and then they have to make creatives. That is why, we have seen slow revenues right now and that is why we focus on the annual business and how it flows on an annual basis never surprises us.

Moderator: The next question is from the line of Ritesh Bakshi from Padmee Capital.

Ritesh Bakshi: Just want to check on the market research that you were supposed to take out to the advertisers and marketers?

Kapil Agarwal: As we mentioned in the opening remarks and the previous earnings call, the advertisement sales team continues to socialize the outcome of market research with the select advertisers. We are also planning to make the results of the study public at an event in near future. We are socializing it, processing the report and talking to various stakeholders relating to what more they want to see once all the results are in. Then we intend to do a launch event when we are ready, and then the results will be in the public domain.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference over to Mr. Karan Taurani for his closing comments.

Karan Taurani: Thank you everybody for joining this call. We hope to see you all in the next quarter.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Elara Securities that concludes the conference call. Thank you for joining without us. 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.