



UFO Moviez India Limited
Q2&H1FY19 Earnings Conference Call

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MANAGEMENT:

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MODERATOR:

MR. VIKRAM RAMALINGAM - MAYBANK KIM ENG SECURITIES PRIVATE LIMITED

Moderator:

Ladies and Gentlemen, Good day and welcome to the UFO Moviez India Limited Q2&H1FY19 Earnings Conference Call hosted by Maybank Kim Eng 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. Vikram Ramalingam from Maybank Kim Eng Securities Private Limited. Thank you and over to you, Sir!

Vikram Ramalingam:

Thank you, Karuna. Good Afternoon, Ladies and Gentlemen. Maybank Kim Eng Securities is pleased to host the management team of UFO Moviez to discuss the Q2&H1FY19 Results. We have with us from the management, Mr. Sanjay Gaikwad - Founder and Managing Director; Mr. Kapil Agarwal - Joint Managing Director and Mr. Ashish Malushte - Chief Financial Officer. Mr. Gaikwad, will give us a brief overview of the results and the business. Thank you and over to you, Sir.

Sanjay Gaikwad:

Thank You, Vikram. Greetings everyone and thank you for joining us on UFO’s Q2&H1FY19 earning call. As always, I will first discuss the financial and operating highlights for the quarter and half year and then open the floor for questions.

In Q2FY19, Consolidated Revenues stood at ₹1,335 Mn. EBITDA declined 10.5% Y-o-Y to ₹338 Mn. EBITDA margins compressed by 182 basis points primarily on account of planned D-Cinema sunset impact and lower Other operating income. PAT stood at ₹108 Mn.

Total Advertisement revenues grew 32.0% Y-o-Y to ₹490 Mn and In-Cinema Advertisement revenues grew 25.6% Y-o-Y to ₹453 Mn. Inventory utilization during the quarter grew to 5.08 minutes per screen per show from 3.52 minutes in Q2FY18. Caravan Talkies has shown revenue growth this quarter on the backdrop of expanded services. However, expanded services have also resulted in increased costs putting pressure on margins.

D-Cinema sunset exerted pressure on overall profitability dragging EBITDA lower by ₹33 Mn.

In H1FY19, Consolidated Revenues stood at ₹2,682 Mn. EBITDA declined 21.0% Y-o-Y to ₹621 Mn. There was a onetime non-cash ESOP cost of ₹27.7 Mn. PAT stood at ₹184 Mn during the period.

Total Advertisement revenues grew 8.9% Y-o-Y to ₹942 Mn and In-Cinema Advertisement revenues grew 4.4% Y-o-Y to ₹854 Mn.

The second half of fiscal 2019 looks favorable for advertisement revenues. The movie slate comprising of much awaited releases like Rajinikanth & Akshay Kumar’s 2.0, Shah Rukh Khan’s Zero, Ranveer Singh’s Simmba, Akshay Kumar’s Kesari, etc, are expected to positively impact in-cinema advertisement performance. However, timing of declaration of general elections may impact Q4 revenue from Government Advertising.

Our financial position continued to remain strong. As on September 30, 2018, UFO’s Net Cash stood at ₹990 Mn Compared to ₹1,095 Mn as on March 31, 2018, after paying dividend of ₹427 Mn. Also, LTM-DSOs have improved to 87 days from 113 days as on March 31, 2018. Also, the Capex during the last six months has been at a lower trajectory of ₹176 Mn, in line with our Annual guidance resulting in healthy Free Cash Flow generation.

I would like to highlight a few development that took place recently. The Government of India, Ministry of Information and Broadcasting revised the Central Government advertisement rates for digital cinemas. The rate revision is 20% and is effective November 1, 2018. The positive impact of new rates on UFO's financials is expected in FY20 once new budgets are allocated.

Also, we recently commissioned Nielsen to conduct Measurement and Research surveys across the Advertisement network. The outcome of the surveys will be published and shared with advertisers December onwards. Advertisers are likely to monitor the survey results for a couple of quarters before taking decisions. We expect this currency to deepen our engagement with brands that look to reach consumers nationwide.

Moving to the update on the Scheme of Arrangement and Amalgamation between UFO and Qube, the merger process is progressing well. Chennai NCLT's order approving the Scheme was received on August 20. The final two steps, i.e. Mumbai NCLT's approval of the Scheme and RBI registration is pending. We are hopeful that the process will complete soon.

Finally, I would like to highlight that our strategic focus is on driving Advertisement revenues. The merger strengthens our position to monetize advertisement revenues across ~7,000 screens. And Research and Measurement outcomes further enhances our ability to monetize available inventory and drive realization. Both these developments will be extremely crucial for the future growth of the Advertisement revenues.

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

Moderator:

The first question is from the line of Urmil Shah from IDBI Capital.

Urmil Shah:

My first question is on the in-cinema advertisement revenue. The blended rate has been coming off and, in fact, our current rate is almost at a 14 quarters low. What had resulted in the slide this quarter and when can we expect the blended rates to bottom out given that the Government rates have also decreased?

Kapil Agarwal:

If you recall, for last many years, Media and Entertainment sector has been one of the largest contributors to our advertising revenue and at very healthy rates. Last year, this sector was a little over 25% of our total Corporate advertising revenue. This year, because of their own issues, the Media and Entertainment sector's contribution has come down and is now ~10% this quarter. However, the teams worked hard and the good news is that we could sell the network to new clients and that has contributed to marginal growth in advertising revenue. Another piece of good news is that this has opened doors to many more new clients. So, once the Media and Entertainment sector spending comes back, we will be able to show better growth.

Also, Government rates have gone up starting this month. But you can understand that spending budgets have already been allocated for the year and additional budgets may not be allocated because of the higher rate. As a result, minute utilization might go down and revenue per minute will go up as far as the Government advertising is concerned. And so far as Corporate advertising is concerned, we are obviously pushing growth and booking a lot of network clients now. The Corporates were earlier in the habit of advertising during peak weeks and blockbuster movies but we are pushing them to use the network irrespective of how the movie does. When somebody is giving us network business for 3-12 months, they obviously negotiate better rates. This is the practice across every media platform. We have a number of network clients which is also putting pressure on realizations. With some blockbusters coming up, considering Q3 is always blockbuster quarter, we expect rates to go up and in fact, we have booked large amount of inventory at good prices. The problem is that we do not know the fate of the recent blockbuster and how it will impact the fate of the next 2-3 blockbusters which are lined up.

- Urmil Shah:** You mentioned that Government ads remain uncertain in Q4 given the election period. Are we trying to say that generally Q4, which is a very strong quarter, there can be a difference this time?
- Kapil Agarwal:** Yes, this is exactly what we are saying because the general elections could be announced. The moment the date is announced by the Election Commission, the code of conduct comes into effect and all ongoing as well as future advertising of the Government till the elections are held back immediately. Now, we do not know when the election dates will be declared. If it is declared in March-end, Q4 will be a healthy quarter but if it is declared earlier, business might be weaker. This is the reason we wanted to convey to the market that this is one vulnerability because we should also remember that Q4FY18 was a very healthy quarter for Government advertising. And imagine if one month of revenue in March goes, what happens is really not in our hands.
- Urmil Shah:** Also, what is the kind of difference in the research and measurement tools which we are implementing through Nielsen versus our earlier study, apart from maybe the coverage?
- Sanjay Gaikwad:** The research and measurement which we have now engaged with Nielsen, first, the sample size will increase. Earlier, it was ~650 screens, which is now increased to ~1,700 screens, it includes both the networks. So, every week after the first six weeks, like a running counter, last four weeks data will be provided. So, it is like a TRP kind of model and four times in a year they will also publish the profiling, the kind of profile which the pilot had published. After few quarters of gathering data and with the help of Nielsen we will create a predictive algorithm. That will be a significant milestone from the Corporate advertisement perspective because it will help us get revenues irrespective of blockbuster movies. So, with this measurement, advertisers will be able to take decisions based on number of predicted eyeballs and we will create a revenue model which will give a lot of comfort to advertisers.
- Moderator:** We move to the next question which is from the line of Karan Taurani from Elara Capital.
- Karan Taurani:** My question was pertaining to the Government ad spends, this quarter there has been growth of over 40% Y-o-Y. Now is this sustainable for the next 2-3 quarters where do you see the outlook in this particular segment?
- Kapil Agarwal:** Whenever we engage with the market and get feedback, everybody discounts Government advertising revenue. But if you see over the last 14 quarters, Government advertising has grown at a very healthy pace. And we should also recognize that unlike multiplex chains, which have only class eyeballs, our screens are a mix of class and mass eyeballs. And for mass eyeballs, worldwide, Governments are one of the biggest consumers. We had said, based on the last five or six years of experience, that this will continue to be a very strong contributor. Also, Government advertisement varies on Q-o-Q basis but we think it is growing overall on an annual basis. Government business has been growing at a CAGR of 16% in the last five years. So, it has shown continuous growth and will continue showing growth, which is what we expect. It will continue to be a good contributor but expecting 40% every quarter will be a bit too much because of the upcoming State Elections and General Elections as the code of conduct could come into effect.
- Karan Taurani:** My second question would be pertaining to VPF. So, your D-Cinema VPF has been declining consistently because of the Sunset clause. What kind of impact do we see for the next 6-8 quarters, is it more or less done with? How much is written off already and how much is left currently?
- Ashish Malushte:** With regard to Sunset, we are exactly on the same trajectory as we had explained earlier. From now onwards, we are expecting about 4.5 quarters of Sunset impact, the remaining impact on EBITDA is estimated to be ~₹150 Mn.

Karan Taurani: Just one last question, in terms of your VPF in E-Cinema, what happened down south in Tamil Nadu when they wanted to stop paying VPF, there were a lot of disputes. Do you see this kind of risk coming for Hindi movies as well?

Kapil Agarwal: This is a continuous struggle with the production community. People would like to pay zero VPF and have been talking to us for the last six or seven years. There are enough disruptions in the market, where other players come and they talk about zero VPF. We are investing and maintaining that equipment, processing and delivering the content. So, it is actually a service charge on them, which is not going to become zero. So, in the North also, for the last five or seven years they have been talking about reduction. We have not reduced it. The pressure will keep coming and we will keep fighting those pressures.

Karan Taurani: Multiplexes have now signed contracts with some big production houses in India and they have agreed on this Sunset loss for VPF. So is the same applicable for single screens as well?

Kapil Agarwal: Number one, please understand that multiplexes have signed this VPF contract for D-Cinema (DCI-compliant equipment). All the major chains, three major chains together, are now ~1,600 screens. Outside of that, we have 1,100 DCI compliant screens. Secondly, all other chains outside of the three major chains are part of our network. It is a substantial network. If they are given a Sunset in 2024, we probably may have to agree for 2024, which is another six years, and till then there will be no disruption in the services or in the revenues.

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

Ankur Periwal: First question on ad yields. You did mention that Media and Entertainment ad revenue is going off which led to decline in your yields. But even adjusted for it, overall growth on the Corporate side is not great. You did mention that we are adding new clients but are new clients getting added at much lower realization?

Kapil Agarwal: Yes. As we said, there are two struggles that we had in corporate. One is the lost revenue from one particular sector at good pricing. We had to make up for that revenue. Number two, we have to grow. Number three, we have constantly been trying to push more network clients because the Corporate sector has been in the habit of picking up the best screens and the best movies. So, what is the best movie even they do not know because it is difficult to predict the success of movies like *Badhaai Ho* and *Sairat* which are sleeper hits. Nobody can predict as the decision is taken 2-3 weeks before the movie is released. Advertisers put money on movies like the recent blockbuster and then they wanted to withdraw that money. This also affects future blockbusters. We are very happy to tell you that we have signed a three-year client. And obviously, when somebody is willing to put money for three years, those deals are completely different. If there is an annual or three-year client, the prices are lower.

Ankur Periwal: Over the years, the percentage contribution from multiplexes in terms of screens presence has been on a steady rise. Government realizations have been constant and Corporate ad growth has not been as impressive. Whatever growth is coming in, is coming more from volumes rather than from realizations and incremental pressure on realizations is seen because of long-term contracts. So, putting all things together, are we looking at more volume driven growth going ahead, which will dent the overall 20% guidance we have been highlighting earlier?

Kapil Agarwal: Government advertising is a different ball game and Corporate has its own challenges. Second, we are trying to bring structural changes so far as Corporate advertising is concerned. Merger with Qube is important, so that we can provide an all India network. So, one structural change we are trying to bring is the Qube merger. The second structural change is the measurement and that has been already instituted. The measurement is not just the eyeballs but also the profile of the audience going to these theaters and we ourselves were surprised with the findings when

we did the pilot. Now, over the last six months after the pilot, we have gone to advertisers, understood their need, warmed them up, we have already brought them on board on what kind of results they would like to see. Some major advertisers and agencies, we have engaged with along with Nielsen and the terms of reference have been created accordingly. So, what we are saying is these are the two structural changes which we think are going to give a substantial rise and that is where we have been putting our efforts.

Sanjay Gaiwad: Until these structural changes do not happen, advertisers buy based on the blockbuster or based on the hype of the movie, based on sentiments. So, if the movie does not do well, the subsequent blockbuster movies also get compromised. So, all that affects the ability to build Corporate revenue.

Ankur Periwal: Last question on Caravan Talkies. Now, while we have shown that we have been able to limit the cyclical or seasonality in the business because of monsoons this quarter, showing us strong growth in revenues. But the EBITDA loss remains the same. So, is the incremental revenue coming at marginal profitability, how should one read it?

Kapil Agarwal: So, in Caravan Talkies we have brought about substantial change in the services offered to clients. There are many service elements – from a sun down show in the evening which used to be one show, the van is moving around in villages and people are seeing the actual branding. We have gone into a lot of activation, door knocks, two-way communications and sampling. We have been experimenting with the clients and we are getting a good response. So, while the good news is that we are able to charge higher revenue but it also comes at a higher cost. And initially, since we were launching these services, as a part of a sampling any new product, we were not able to pass all the costs to clients. Of course, now we are repricing the whole thing. Do clients have greater acceptability? The answer is yes, and that is what has, even in the monsoon quarter, given us substantial revenue. So, now, we are in the process of reworking our pricing and passing on those costs to the client. So that work is constantly on.

Ankur Periwal: Our earlier guidance was to break even on EBITDA front in this financial year, probably by Q4. But even if I factor in the higher realizations coming in, on EBITDA there are losses. So do you think that guidance will remain or probably it will take a couple of more quarters for the business to stabilize?

Kapil Agarwal: We are pushing the volumes right now in Caravan Talkies and we are able at higher price to push volumes. We think, Q4 could still be EBITDA breakeven.

Moderator: The next question is from the line of Rishi Maheshwari from Aksa Capital.

Rishi Maheshwari: On the Government ad rate increase, will the empanelment start from January. We will see some part of that recognition in Q4 itself. Is that the correct understanding?

Kapil Agarwal: We have clarified with the Government and this has become applicable from 1st of November. Which means all the business which we received prior to November, even if it is being executed subsequently, will be at old rates. All the new business which will come now should be at the new rate. However, there is still some overlap because there was a lot of business which was in the pipeline where the files were already moved in the Government and, for a 20% increase, we did not want to compromise on that. Some business which we receive in November might be on the older rates or on the newer rates but the circular is applicable from 1st November.

Rishi Maheshwari: Does this not involve empanelment because right through the DAVP said empanelment of all theaters is to be done.

- Kapil Agarwal:** The theaters are all empanelled. At regular intervals, we give them an updated list of theaters. Some theaters shut down, some theaters go into temporary renovation. This is a bi-annual activity.
- Rishi Maheshwari:** Secondly, you mentioned the code of conduct coming in from the date of announcement of election dates. Will this be partially offset by political party advertisements that will come in? Do you believe that political party advertisements will more or less compensate even if the code of conduct that has come in by say 15th of March or early March?
- Kapil Agarwal:** To some extent, but in our past experience we have not seen political parties advertising a lot on cinema during the election season. We do make some business and it is at a good price but it is not substantial enough to offset the volumes which the Government is doing. When elections in five states have been declared, the activity moves to other states and only in five states for that period you cannot advertise. But the general election is held across India so it affects us more. Political parties are not big offsetters, but if they are this year, we will be glad to show higher revenue.
- Rishi Maheshwari:** So, consequently, would you be able to hold the guidance of 20% or do you seem to be a little cautious on those terms that we would require about 27-28% revenue growth in the second-half versus second-half of last year.
- Kapil Agarwal:** We are cautious. This is the reason that we have conveyed to the market that two significant changes have occurred. On the Corporate side, we lost a substantial part of a particular sector which was a good client and for the last 12-14 quarters. And second is this declaration of elections. So, we will be a little cautious and stay away from giving any guidance at this point of time.
- Moderator:** The next question is from the line of Kashyap Javeri from Emkay Fincap Limited.
- Kashyap Javeri:** First question on your advertisement revenue growth. If I look at it, of the three factors – the number of screens have been declining, minutes per show has moved from about 4 to about 5 in the last three years, and thirdly, ad rates either remain flat or come down. So, I can understand that in the second half, because of certain circumstances, ad revenue growth might be a little challenging. But on a steady state basis over a longer period of time unless something comes out of the Nielsen survey, should one tone down the expectation of significant ad revenue growth? The second question is on your operating cost, barring VPF sharing and advertisement cost sharing, even employee as well as direct cost continues to be high. Employee cost has gone up by 20%, other direct operating cost has gone up by 10%. What is driving that number? And the third question is – if you could give the number for OCF as well as FCF for the first-half?
- Kapil Agarwal:** The major change that we expect, which is where all our efforts are – with some structural changes, as Corporate advertising is concerned, with our merger with Qube we are serving a larger, all-India network. And second is the creation of the currency and profiling of audiences. These factors should bring substantial benefit to the Corporate ad growth trajectory, both in terms of utilization of minutes as well as in terms of pricing. So, we would stay away from toning down the expectation in the future. In terms of number of screens, it is not really a major concern. From the peak of Q1FY18, when we were at 4,032 ad screens, now we are at 3,800 ad screens. So, basically, it seems that 232 screens have been lost over five quarters. The actual number is only around 60 screens that have actually shut down. We always said that some optimization will keep happening. For example, we had the advertising rights for Satyam Cinemas in the south. Now Satyam has been taken over and ~40 screens have been lost. About 100 screens are gone forever and the balance screens are under renovation, temporarily shut for licensing issues or some other issues. This is a 5% decline of screens. After the merger and the measurement and profiling is in place, we would not really be too worried and remain optimistic.

- Kashyap Javeri:** And what do you feel on the operating cost front?
- Ashish Malushte:** Operating cost has gone up because it includes expenses of Caravan Talkies. That is the primary reason. But actually, if you exclude the cost relating to Caravan Talkies, there has been a slight but important improvement in the other operating direct costs. On your question on employee-related cost, your observation is absolutely valid. It appears that the cost has gone up by about 24%. But it is important to note the components of that. The first component in this quarter is about ₹7 Mn relating to one-time, non-cash cost of ESOPs. The second cost is a normalized increase in the manpower cost which is to the tune of 10% Y-o-Y. And the third and important aspect is relating to the incentives payable to the advertising sales team, which sits in this cost. As revenue goes up, so does corresponding incentive amount, which is a positive. So, pure manpower cost has gone up only by 10%. Third, you had a question relating to cash flow from operations. In the six months, cash from operations is to the tune of ₹630 Mn and free cash flows, if we reduce about ₹176 Mn of Capex that we have incurred which was lower than previous six months, then free cash flow is to the tune of ₹454 Mn in this period.
- Moderator:** The next question is from the line of Nikhil Vaishnav from VD Investment.
- Nikhil Vaishnav:** I just wanted to ask about in-cinema advertising, the number of clients has decreased. Could you explain this decrease in in-cinema?
- Kapil Agarwal:** The revenue impact of these clients is very small as these are largely retail clients, which are very small ticket clients and largely they are from the south. In the south, there was strike and then in the last quarter there were issues in the south.
- Nikhil Vaishnav:** So, can we assume in the next quarter there will also be a decline?
- Kapil Agarwal:** No, we do not expect any substantial change.
- Nikhil Vaishnav:** My next question is on the Caravan Talkies business. How many Caravans were operational in Q2FY19 and how many new routes have been added in Q2? Have we seen more vans being added and how do you see it in the second half? Are you in talks for new vans, can you clarify on this please?
- Sanjay Gaikwad:** Total van days in Q2 have moved up from 784 to 1,962.
- Kapil Agarwal:** Routes are not fixed by us and that is where one-time cost also comes when we open new clients. So, the client selects the routes, we give that option to the client and there is a lot of one-time cost of operationalizing those routes. That is currently putting pressure on our profitability. A lot of new routes and new states are opened, depending on the client requirement. We also try to push the client to use existing routes but it is really their discretion because wherever the market is for that particular client, is what they want to choose.
- Nikhil Vaishnav:** And have we added more brands in this quarter, so how do you see the second-half? Are we in talks with new brands, can you give us some more details?
- Kapil Agarwal:** Yes, we will see more brands.
- Siddharth Bhardwaj:** When we open a new a client, they start with one brand but as they taste success they come back and use the platform to take other brands to these markets. And similarly, while we operate through an agency, once the agency gets positive feedback, they go back and pitch it to another brand. The good part about Caravan Talkies is –

yes, the movement has been slow but the client retention has been really good and not many clients are actually moving out of the fold. Initially, they sample it with one or two vans, ask for free samples for a month and then they go out and try it out for 3-4 months. Yes, we are talking to multiple brands and some are testing the medium. Others are actually looking at it very seriously because their peer group, other brands from the same category, has actually used it very well. Like in FMCG, the product is now established, and more brands are also wanting to come on board.

Nikhil Vaishnav: Why have E-Cinema screens and international screens declined this quarter and your net VPF revenue has also decreased?

Kapil Agarwal: International screens are part of the planned Sunset, so they have to decrease. As far as the E-Cinema screens are concerned, we just explained that 60 screens have shut down, 40 screens have moved to other multiplex chains and the rest are in temporary de-installation state. Overall, there has been a 5% decline, which we are not expecting to impact our revenue too much.

Moderator: The next question is from the line of Dipan Mehta from Elixir Capital Limited.

Dipan Mehta: I want to understand this acquisition of Qube. Is it going to result in equity capital going up or is it being funded from debt?

Kapil Agarwal: Number one, it is not an acquisition, it is a merger. We are buying out in cash ~55% equity of Qube which is held by PE and external investors. The balance 45% equity which is with the promoters, management and other smaller shareholders of Qube, will be merged with UFO. Now, the total cost of this 55% is approximately ₹3,320 Mn out of which ₹2,150 Mn is being bought over by ICICI Venture and their LP's. Balance ₹1,170 Mn will be funded from UFO's balance sheet. As a result, ICICI Venture and 45% shareholders of Qube will receive equity shares of UFO upon merger. ₹1,170 Mn used in buying Qube's equity will get canceled following the merger. So, effectively, we would buy our own shares equivalent to ₹1,170 Mn through this scheme.

Dipan Mehta: What is the increase in the equity capital?

Kapil Agarwal: Our share capital is 28.4 Mn shares and around 12.8 Mn new shares will be issued.

Ashish Malushte: Total share capital post-merger and after preferential allotment will stand at 42.7 Mn shares.

Dipan Mehta: Another thing I have been observing on this virtual print fee. While we understand that for D-Cinema there is a Sunset clause, but the entire exhibition revenue whether it is virtual print fees or lease rental income that consistently keeps on reducing by a high single-digit every quarter. So, is this trend going to last till 2024? No business can survive when you have 60% of the revenue going down by 10% every year and expect other revenue to grow the business. Is this sustainable? What is your assessment on where the core revenues are, how they are going to move apart from the Sunset clause of D-Cinema? Even the E-Cinema revenues are not growing.

Kapil Agarwal: E-Cinema revenues have never been designed to grow. The way we designed the business was that the rental we used to charge from cinemas five years back has remained unchanged. We invest in the equipment, give it to the cinema at very low cost through virtual print fee as well as advertising rights. That was what we really created from the beginning. We designed it as a media Company. Our upside will really come from advertising revenue and that is what we have our bets on. As far as virtual print fees are concerned, there are two streams, D-Cinema and E-Cinema. D-Cinema was majorly designed to be Sunset business, which now we are in the last leg of. E-

Cinema, two or three things affected it. One is that we had a renegotiation within the south industry. Secondly, a small number of screens shut down or went out of the network. That affects the business but rates have been more or less constant. So, we do not really see any major concern on that count.

Dipan Mehta: And my last question is that there is a sharp drop in advertising share with exhibitors. So, is it that we are getting a higher share from the exhibitors – from 43.09% to 34.5%?

Kapil Agarwal: It is not the share that we receive from them; this is the share we give to them. So, the way the business is structured is that when we give certain, good screens, we give a certain minimum guarantee along with it. So, with the minimum guarantee, the general rule is that we should be sharing 25% to 30% of the advertising revenue with exhibitors. However, since revenue keeps varying, to retain the exhibitor, we give them a certain minimum guarantee. So, if my revenue drops and does not meet that minimum guarantee, then the revenue share goes up. Whenever my revenue is higher, the percentage share reduces because we are giving the minimum guarantee and no more.

Moderator: The next question is from the line of Aejas Lakhani from Edelweiss Multi Strategy Funds Management Pvt Ltd.

Aejas Lakhani: Two data points and then two queries. One is, sir, could you tell me what is the VPF revenue that we are getting per show per week and then in the second week and then as an aggregate? Has that number remained the same?

Kapil Agarwal: It is a fixed fee. There are different structures in different states or geographies. In the Hindi market, we charge ₹425 per show in the first week, ₹350 in the second week and do not charge anything the third week onwards. It is capped at ₹20,000 for the life of the movie per location.

Aejas Lakhani: So will that not change?

Kapil Agarwal: It is per location because if there are more screens then there are more movies. This is the structure agreed with the cinema industry. There was a particular price till 2012, and in 2012, we agreed that we will give one rise in 2015 and then it will remain constant.

Aejas Lakhani: My second data point is about the ad revenues, the sales commission still remains 9%?

Kapil Agarwal: So, this is the structure, overall it ranges between 8.5 to 9.5%. It is really a success-based structure.

Aejas Lakhani: Will the Nielsen rollout take place January onwards?

Kapil Agarwal: The survey has begun last week. After four weeks pass, they will accumulate data of the four weeks. In the beginning, they may undergo teething trouble as they have to activate the whole sample of about 1,700 screens across the entire network. It will take them some time. Once they stabilize, four weeks later, they will start sharing the data which will happen sometime next month, and then every week they will give the data of trailing four weeks. So, the rollout has already started and from next month onwards, we will start getting the data.

Aejas Lakhani: When can one look forward to the Qube numbers for FY18?

Kapil Agarwal: Well, even we do not have access to those numbers because we are not yet merged. So, depending on when the merger happens, then all numbers will be public because they will be part of UFO.

Moderator: The next question is from the line of Krunal Shah from Enam Investments.

- Krunal Shah:** Just one clarification you mentioned VPF D-Cinema Sunset of ₹140-150 Mn EBITDA?
- Ashish Malushte:** That is correct.
- Moderator:** The next question is from the line of Urmil Shah from IDBI Capital.
- Urmil Shah:** You mentioned about likely Sunset in 2024. I did not get that, if you could explain it in detail?
- Sanjay Gaikwad:** With respect to Sunset, whatever the change led by the major multiplex chains, whatever their stand, we may have to align our stand for D-Cinema screens. But the cost of operations and loss of D-Cinema VPF revenues will be compensated through additional revenue from our exhibitors. We will be able to pass it on to exhibitors and six years are sufficient to increase ad revenue and ad revenue share paid to exhibitors. Thus, we do not expect a significant impact from Sunset, even if we align ourselves with those changes vis-à-vis the VPF revenue.
- Urmil Shah:** Would it be possible to share what percentage of our VPF D-Cinema in domestic with these national exhibitors be?
- Kapil Agarwal:** There was a time when we had five year contracts with the multiplex chains, when we were collecting all the VPF. Those contracts are almost over. So, the VPF we collect is largely from our own network – not 100% because some contracts are still overflowing – but there they are collecting VPF from producers directly and we have a small share at the moment.
- Urmil Shah:** And one of the large national players has talked about launching a new brand for Tier-II and Tier-III cities. So, any commentary on the same and how should we look at competition?
- Kapil Agarwal:** We operate in a highly competitive scenario always, and we address the competition as it comes. So, we would not comment much but we have been hearing about various multiplex chains moving into Tier-II and Tier-III towns over the last 10 years. It has not happened yet but we are sure, when it happens, we will handle it appropriately.
- Sanjay Gaikwad:** And as such if you see, India is under-screened so there will be significant potential and we have the experience and capability to play in Tier-II and Tier-III cities. Those are the cities where we need to see how they will align themselves. The current exhibitors are actually investing in screens where the ticket price range is from ₹60 to ₹80. With that ticket price, whether these national chains be willing to enter into that market is something that only time will tell.
- Urmil Shah:** Two small data points. One was the count on NOVA Cinemas – the number of screens – and second, if you could share what we have been talking about the weekly or monthly run rate for local advertisements?
- Sanjay Gaikwad:** NOVA is at the same level as the previous quarter. Total operating screens are 26 and there are 20 screens where the work is in progress, these are brownfield and greenfield screens.
- Kapil Agarwal:** We have not seen any major traction on Framez. One of the benefits of Qube merger is that Qube teams are very strong in terms of the retail advertising. So, we are waiting for the merger to happen, instead of giving a major push at present.
- Moderator:** The next question is from the line of Priyanka Mehta, an Individual Investor.
- Priyanka Mehta:** If we see year-on-year and quarter-on-quarter, the full house-seating capacity in single screens in India has decreased. Can you give some more insight on that?

- Kapil Agarwal:** As we mentioned, a lot of screens actually are converting into multiplex screens. So, single screens which were like 1,000-seat single screens – they convert into multiplexes with three screens. So, it shifts from a single screen capacity to multiplex capacity. That is how multiplex capacity goes up and single screen capacity falls. However, around 60 screens have shut down and around 40 screens have moved to another chain. Most of these 60 screens that have shut down would be single screens and that capacity is fundamentally reduced.
- Priyanka Mehta:** What kind of EBITDA margin should we be looking for FY19?
- Kapil Agarwal:** Let us wait and watch because EBITDA margin depends on the performance of advertising revenue and Government advertising, which we have extensively covered during this call. Between 55% and 60% of advertising revenue directly goes to EBITDA so that plays a significant role. Let us wait and see how advertising revenue is impacted by the declaration of election dates, then we will be able to address it more specifically.
- Moderator:** The next question is from the line of Dipan Mehta from Elixir Capital Limited.
- Dipan Mehta:** Again, the question relating to the merger. Based on present trends, do you think that the merger will be earnings accretive or earnings dilutive? I mean the capital goes up by ~₹120 Mn from ₹420 Mn, so will the profits post-merger go up by a similar amount so as to maintain the same earnings per share or will you see a decline in earnings per share?
- Kapil Agarwal:** We think there are two things which are going to happen. One is the optimization of expenses. Currently, we are two competing companies and businesses and have duplicated the infrastructure everywhere in terms of offices, service network, warehouses, spares, etc. Once the post-merger integration starts, revenue synergies will kick-in and cost optimization will happen, which itself should be good enough to take care of most of the extended capital.
- Ashish Malushte:** In addition to that, FY17 reported PAT of Qube was ₹320 Mn and we are going to add about 12.8 Mn shares. So, if you look at this math, it is going to be clearly an earnings accretive deal to start with. The benefits are far more than that this is what was tried to be explained
- Moderator:** Thank you. Ladies and Gentlemen, this was the last question for today. I now hand the conference over to Mr. Vikram Ramalingam for his closing comments. Over to you, sir.
- Vikram Ramalingam:** Thank you, everyone, for attending the call. And special thanks to the UFO management. Good day.
- Moderator:** Thank you very much, sir. On behalf of Maybank Kim Eng Securities Private Limited, that concludes this conference call. 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.