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Watch What You Want

UFO Moviez enables movie watching, irrespective of location or timing

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In this age of instant gratification, we do not expect any less from our movies. Aspirations across the country are on par and small town brethren want to watch the latest Bollywood melodrama on the same day as city folks. And where there is demand, there is supply. Mumbai-based UFO Moviez has been servicing this space for the past few years. Through UFO Moviez, exhibitors can beam the latest blockbuster in Mumbai and in a tier-3 town on the same day of its release. “The cinema operator has to install our equipment and the movie is delivered and exhibited through it,” says Sanjay Gaikwad, founder and managing director of UFO Moviez.

The exhibitor does not have to incur any upfront capital cost either for the equipment or for procuring the movie. This cost saving and convenience has resulted in UFO Moviez reaching a total of 5,000 screens so far. Now, how does UFO milk the food chain? It generates revenue in three ways: One, distributors pay it to deliver movies, second, it charges the exhibitors a rental for its equipment and finally, through in-cinema advertising. However large scale players like PVR prefer to own their equipment outright. That is because it can buy equipment in bulk and enjoy all the advertising rights itself. For single-screen players though, it does not make sense.

In FY16, UFO raked in Rs.560 crore and was also sitting on gross assets of close to Rs.826 crore, of which Rs.650-700 crore is equipment installed in cinemas. “We charge maintenance rental for the equipment, but that is very marginal and the real contribution comes from distribution and advertising,” says Gaikwad. The annual rental of Rs. 60 crore hardly contributes to profitability as it is just enough to cover annual maintenance expenditure that is around Rs.50 crore – 60 crore.

Hence, future growth is expected to be driven by increased distribution and rise in advertising revenue. Towards this end, it is converting single-screen cinemas to multi-screen through a franchisee model called Nova Cinema. “Over the last few years, the market has shrunk or consolidated among few players. Even as the number of screens has come down, single screens are incurring losses. In tier-3 and tier-4 cities people are ready to pay for quality entertainment. So we are bringing in the knowhow,” points out Gaikwad.

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Even with advertising, the other major growth driver, realisation is yet to get into hyper mode. In FY16, advertising revenue was Rs.158 crore. In comparison, PVR which has 516 screens pulled in close to Rs. 200 crore. “PVR gets higher yields, particularly on sponsored content. For example, e-commerce spots accounts for 10% of PVR’s advertising revenue but it is negligible in the case of UFO. PVR makes close to Rs.28 on every ticket which is close 16% of its revenue as against UFO’s Rs.0.95 per ticket or 3% of revenue. UFO certainly can take it to at least 8-10% of ticket value,” says Urmil Shah, analyst, IDBI Capital.

Incremental growth in advertising revenue will directly add to profitability. Analysts expect the management to now aggressively sweat assets and show increased cash flow. Based on this, RoE is expected to improve from 13% in FY16 to 17% by the end of FY18. Recently 3i Research, which had invested much before its IPO, offloaded its entire stake through a block deal acquired by mutual funds such as Reliance, SBI Mutual and DSP BlackRock atRs.536 a share. UFO’s IPO was valued 33x FY15 earnings and priced at Rs.625 a share in April 2015. Now, around Rs.465 the stock is priced at 16x estimated FY17 earnings.

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