UFO Moviez India Limited

Q2&H1FY17 Earnings Conference Call

November 9, 2016

MANAGEMENT:

SANJAY GAIKWAD - FOUNDER & MANAGING DIRECTOR, UFO MOVIEZ INDIA LTD

KAPIL AGARWAL - JOINT MANAGING DIRECTOR, UFO MOVIEZ INDIA LTD

ASHISH MALUSHTE - CHIEF FINANCIAL OFFICER, UFO MOVIEZ INDIA LTD

ANALYST:

URMIL SHAH - RESEARCH ANALYST, IDBI CAPITAL MARKET & SECURITIES LTD

Moderator: Ladies and gentlemen good day and welcome to UFO Moviez India Limited Q2&H1FY17 Earnings Conference Call hosted by IDBI Capital Market & Securities 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Urmil Shah from IDBI Capital Market.

Urmil Shah: Thank You. Good day ladies and gentlemen. On behalf of IDBI Capital, I welcome you all to UFO Moviez India Limited's Q2&H1FY17 Earnings Conference Call. The Company is today represented by Mr. Sanjay Gaikwad – Founder and Managing Director, Mr. Kapil Agarwal – Joint Managing Director and Mr. Ashish Malushte – Chief Financial Officer.

I would now like to hand over the call to Mr. Gaikwad for his opening remarks, post which we can start the question and answer session. Thank you and over to you Sir.

Sanjay Gaikwad: Thank You, Urmil. Greetings everyone and thank you for joining us on UFO Moviez second quarter earnings call for fiscal 2017.

So to begin with, let me take you through the result highlights of Q2FY17, the total consolidated revenues increased by 6.9% Y-o-Y to ₹1,599 Mn. EBITDA grew 20.3% to ₹556 Mn Y-o-Y representing a margin of 34.8%. Our margins grew 388 basis points on account of operating leverage benefit and higher contribution from Advertising. PBT grew 37.4% to ₹328 Mn Y-o-Y and net profit for the quarter grew 23.1% to ₹203 Mn as against ₹165 Mn in Q2FY16. The net profit factors in Tax expense of ₹24.4 Mn on account of Dividend received by UFO's Indian subsidiaries from the overseas subsidiaries. As such, the normal consolidated PAT should have been ₹227 Mn.

Excluding VDSPL's quarterly planned losses, our Theatrical and Advertisement business EBITDA stood at ₹574 Mn, higher by 21.5% Y-o-Y. PBT was ₹367 Mn, up 43.7% Y-o-Y and PAT stood at ₹242 Mn, up 33.3% Y-o-Y.

The Advertisement business was a standout performance with 50.4% growth at ₹517 Mn, a new quarterly record for advertisement revenues. Advertising revenue contributed 33% of total revenues compared to 23% in Q2FY16. This performance was supported by both Government and Corporate verticals. Government revenues grew by 92% while revenues from Corporate grew by 16%. Advertisement inventory utilization grew 33.7% taking the total number of advertisement minutes sold per screen per show to 5.15 minutes during the quarter compared to 3.85 minutes for Q2FY16. This takes our utilization to 4.52 minutes in the first half of fiscal 2017.

In fiscal 2016, we delivered 35% advertisement growth of which 87.7% was delivered in Q1FY16, 7.6% in Q2FY16, 14.8% in Q3FY16 and 55% in Q4FY16. As seen in the last fiscal growth was not even across all four quarters, I would like to emphasize again that this is not a Quarterly business; it should be only viewed on a Full Year basis.

Our H1FY17 Advertisement growth stands at 29.4% and the second half looks promising backed by a solid film slate. Advertiser engagements have also gained further traction in terms of both new and repeat orders. The road ahead looks very encouraging and we are confident of achieving our annual guidance of 30% growth.

Our Advertisement network strength has also bounced back to 3,748 screens from 3,670 screens last quarter. This movement is in line with what we have been saying over the last 4 conference calls.

UFO Framez, our hyper local advertising initiative also witnessed healthy improvement in terms of sales. Q2 revenues have shown a sharp increase compared to Q1, this however is not a significant contributor at this stage. We are currently focusing on appointing DSAs at the remaining clusters and we also continue to monitor the performance of DSAs at the existing 366 active clusters. The DSAs who are performing well will remain engaged with us while the non-performing DSAs will be replaced with better and efficient ones. We expect that the entire network will be covered by competent DSAs by the end of fiscal 2017 and those DSAs should stabilize in another 3 to 6 months.

Looking at the performance of the Theatrical business, our E Cinema VPF revenues grew by 14.8% Y-o-Y. This growth was attributable to more number of 1st and 2nd week shows and decline in free shows which ran beyond 2 weeks and also increase in the number of movies which released on more number of screens.

Our Caravan Talkies business was non-operational during the quarter due to monsoon season. VDSPL’s EBITDA losses reduced over the previous quarter due to a decrease in operating variable cost. At this juncture, I would like to highlight that Caravan Talkies has commenced operations post monsoons. It is slowly and steadily gaining momentum and we expect this business to cash breakeven in H2FY17.

Our Balance sheet continues to remain healthy, as on September 30, 2016, Net Cash stood at ₹300 Mn compared to a Net Debt of ₹24 Mn as on March 31, 2016. The Company’s DSOs are under control at 81 days compared to 97 days as on March 31, 2016.

I am also pleased to inform you that the first theater under our asset-light franchisee model NOVA Cinemaz is up and running. The theater features 2 screens and has 367 seats in total, with recliner seats in each screen. The theater is located at Moga in Punjab and is called Neelam NOVA Cinemaz. Currently, we have one operational theater and have signed up another 2 franchisee partners where work is currently in progress. Also, we are in advance stages of negotiations for 9 projects across Maharashtra, Gujarat and Punjab. This is a stepping stone towards fulfilling our aim of transforming the movie-watching experience for the masses of India.

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

Moderator: The first question is from the line of Kashyap Javeri from Capital 72 Advisors.

Kashyap Javeri: Why has the gross E-Cinema VPF gone up from ₹73,069 per screen to ₹83,012 per screen?

Ashish Malushte: E-Cinema revenue per screen growth is primarily driven by the yield effect. Though we have not raised the prices of our service offerings, some of the shows that play on every theatre, every month get higher revenue and some of the shows get zero revenue.

Sanjay Gaikwad: As per our rate card, we charge ₹425 for the first week of the release of the movie, and ₹350 for second week of the release and from third week onwards, we do not charge anything. So, more shows have happened in the first 2 weeks during the quarter has resulted in increase in the E-Cinema revenue. The revenue generating shows have contributed more during this period and this is not in our hand, but actually driven by the industry.

Kashyap Javeri: So one need not necessarily extrapolate this number?

Sanjay Gaikwad: Absolutely.

Kashyap Javeri: The minutes per show per screen this quarter is 5.15 minutes which is 34% jump over Q2FY16. There is lot of volatility in terms of the growth number Y-o-Y. Why this sharp jump of 3.85 minutes to 5.15 minutes Y-o-Y? And what creates this kind of volatility? It might be volatile based on seasonality Q-o-Q, but on Y-o-Y basis, what creates this sharp volatility?

Sanjay Gaikwad: Q1FY16 was slightly peculiar and in fact we told during our earnings call last year, that 88% was extra ordinarily high. In Q1FY16, because of the ICC World Cup, some of the revenue got shifted from Q4FY15 to Q1FY16 last year. That gave it a very high growth in Q1FY16 and Q1FY17 growth was comparatively lower because we were comparing it with an artificially high base of Q1FY16, and that creates volatility.

Kapil Agarwal: Plus the conjunction of advertising in in-Cinema and that you will see in other Cinema chains as well which varies from quarter to quarter. For example, Q2 and Q3 are very high on consumption normally by the Corporate sector because of the festive season, like Eid, Diwali Christmas and New Year. Typically, Government consumption is very high in Q4 because all Government departments have to finish their budget by 31st March, so they tend to spend more in Q4. It all depends on different revenue mix. That is the reason last year we consistently gave a guidance of 35% revenue growth in advertisement revenues and we actually delivered 35.3% despite the lowest growth being 7.6% and the highest being 88% at the end of the year. Similarly this year if you see, in the beginning of the year we gave a guidance of 30% growth. In Q1FY17, we delivered 9.5% growth and in Q2FY17 it is 50.4%. But the average growth in H1FY17 is 29.4%, which is close to our guidance. And it also depends a lot on the release of bigger movies. People tend to advertise more when bigger movies release as far as the Corporate sector is concerned. But the Government sector doesn't spend that way. These are the market realities and in future also, Q-o-Q you may see variations but overall at the end of the year, 30% growth guidance which we have given at the beginning of the year is achievable.

Kashyap Javeri: Looking at this split that you have given in presentation on Government and Corporate revenues, why have Government revenue in H1 grown at a very high rate, unlike the seasonality that we see in Q4?

Kapil Agarwal: In FY16, spread was 52:48 and this year, in H1FY17 it is 57:43. These few percentage points will keep going up and down on quarter-on-quarter or on a half yearly basis. But eventually Corporate business is likely to take over Government business once our UFO Framez starts giving higher revenue from next year and other initiatives that we are taking in this regard, even in the case of enhanced scenario or 30% grown scenario. Corporate was 18% when advertising revenue was ₹37 crore, now in the enhanced revenue of ₹91 crore, Corporate revenue is 43%. So there is substantial growth which has been achieved on the Corporate revenue in the last 3-4 years.

Kashyap Javeri: We have now ~₹115 crore cash on book and ₹85 crore of debt is left, what will you do with that cash?

Kapil Agarwal: We have already stated dividend policy of minimum 25% payout and we declared 80% dividend last year. We will continue to follow that policy. And this cash is consolidated cash which you see, it is not the cash which is lying in one Company. It is scattered over various subsidiaries. We have a consistent dividend policy and we will continue following it. And we will be conducting other options also to distribute cash to shareholders.

Moderator: The next question is from the line of Pritesh Chedda from Lucky Investment Managers.

Pritesh Chedda: What is the relation between the number of screens increasing and corresponding seat reduction or total seating capacity? Second what is the relation between the screen addition and the ad growth? If you are adding any screen, will it have a proportionate impact on the ad revenue because they might come originally with some ad revenues on them? And thirdly, why your H1 number does not reflect your efforts that you have put on Framez?

Kapil Agarwal: The number of screens has grown from 3,690 to 3,748. If you were part of the previous calls, we have always been guiding the market that 100 to 200 screens plus minus will keep happening in such a large universe because the total number of screens we have is 5,053.

Sanjay Gaikwad: The reason why this plus minus happens is because some of the screens go for major or minor renovation and some of the screens go for license renewal, some go due to licensing issues, so these temporary ones go off and come back again. And that's where that plus minus of screens happen.

Kapil Agarwal: This trend of 150 screens plus minus will keep happening. Right now you have seen the addition, you may see a 25 – 30 screen reduction somewhere, but this is not significant. As Mr. Gaikwad just said, when the screens go for renovation they get split from one screen to two screens to three screens capacity. Suppose there is a screen of 1,000 seating capacity today which is reflecting as one screen and it goes for renovation and after 6 months it comes back as a 3 screen complex with per-screen seating capacity of 200 to 250 seats. Thus overall screens and number of seats per screen reduces because those screens don't have that kind of demand for 1,000 seats. So it goes for multiple screens with less number of seats. That is why this minor adjustment keeps happening with slight seat reduction that you may see. Now as far as Framez is concerned, this is a new business and we have divided the entire country into 600 clusters. Right now we are concentrating on appointing and fine tuning the DSA network. Because these right DSAs will bring business and as he also said in his opening remark, by end of this year, FY17, we expect to appoint all the 600 DSAs. The real impact of Framez will start becoming visible from the second half of next year of FY18.

Pritesh Chedda: Are you acquiring screens which are free loaded which add a certain portion to the advertisement growth?

Kapil Agarwal: Not really. If a chain which has 500 screens, then there is 10% additional number of screens. In our chain, 50 – 60 screen addition in a network of 3,600 – 3,700 makes just 1% – 2% plus-minus. That really does not bring a major impact. 2% addition cannot bring a 50% addition in the advertisement growth.

Ashish Malushte: New screen additions that happen in our case, do not bring with them any pre-signed contracts. The entire revenue of advertisement which eventually will see on those new screens is the efforts of the UFO team. There is nothing which comes along with the sign-up of the new screens.

Pritesh Chedda: We have seen reduction in the equipment sales in the first half and in the quarter. By that logic, your total cost or expenses which you are reporting should have come down. Which cost head is not allowing the total expense number to come down? I see your quarterly expense of ~₹104 crore versus ₹103 crore last year and for H1, it is ₹202 crore versus ₹193 crore last year. So ideally as an investor, one would have thought that incremental ad growth means operating leverage and if there is an equipment sale reduction, then there must be some corresponding expense reduction.

Ashish Malushte: The reason you will not see a significant drop is because the volume by which the advertisement revenue has gone up would have a corresponding cost. Advertisement business may be a 60% margin business, but it has a corresponding 40% cost which has got added in absolute terms. When advertisement revenue goes up; it also brings 40% of the revenue as a cost addition. If you purely look at all cost as one bucket, then both buckets Y-o-Y may not see reduction. And therefore what is important to see is each of the sub-buckets in the expenses once you take the advertisement out and focus on the other costs, you will be able to figure out where the movements have happened. That is one level of detailing that we do in the presentation.

Kapil Agarwal: It is not correct to compare absolute numbers. The growth in revenue also brings growth in expenses. You see the EBITDA has grown by 20.3%. This EBITDA growth tells you where the operating leverage is kicking in.

Moderator: **T**he next question is from the line of Yash Jhaveri from Alder Capital.

Yash Jhaveri: How many DSAs have you appointed and if there was any revenue from Framez in this quarter?

Kapil Agarwal: Revenue from Framez was very small. At this point this is not really a significant contributor to the revenue. And we have 366 active clusters right now where DSAs are represented out of 600 clusters. We are expecting that by end of this fiscal we should be building the 600 DSA network.

Yash Jhaveri: On NOVA Cinemaz, you are looking at setting up new facilities in Maharashtra, what the investment might be and what arrangement is with the partner?

Sanjay Gaikwad: There are 2 kinds of projects we are looking at, from the opportunity of the screen growth that we need to recreate for this franchise initiative called NOVA Cinemaz. One we call is Brownfield project and other Greenfield project. So for brownfield projects, the shell is already ready. It is only the fit outs projects. So in the initial pilot phase, we are looking at setting up 20 – 25 screens and looking at various financial participations. We are looking at participating at ₹10,000 per seat from our side to set up the pilot and we will be getting franchise revenue. But in the long run, the model will be an investment-light model where the franchisee comes with greenfield i.e. with the land plus investment, and we co-ordinate all it takes to set up the screen right from Government permissions, standardization of the whole look and feel, standardization of the equipment, standardization of the fit outs which will bring the whole cost down. We bring these contributions to the franchisee. Thus in the long run, we are looking at an investment-light model, but in the initial period, we were looking at approximately ₹20 lakh per screen investment.

Kapil Agarwal: That is ₹10,000 per seat and average of 200 seat capacity per screen. That's a small investment that we are committing to this business.

Yash Jhaveri: And will there be a revenue share from the ticket price as well?

Sanjay Gaikwad: Wherever we are investing, we are getting the higher revenue share for certain period till we recover our investment and after that it will be perpetual. But our primary objective in this business is to strengthen and grow our core business which is distribution and advertisement.

Yash Jhaveri: By what period of time, do you think these 20 – 25 screens will be operational?

Sanjay Gaikwad: It will take another 1 – 1.5 years.

Moderator: The next question is from the line of Prashant Katara from Investec.

Prashant Katara: Why was there 92% Government advertisement growth? What is the reason for the sudden jump?

Ashish Malushte: There are 3 parts to this delta. One is from the Central Government, second is State Government and third is PSUs. Now more or less in this segment i.e. Government segment will have limited number of customers, so the number of customers do not grow significantly. Our focus has been to add more and more states to the kitty and to that extent, there were some wins. Few of the State Governments like Uttar Pradesh have started doing reasonably good kind of ad spent in this quarter, which is a healthy movement. As far as for the other segments, the growth comes from the existing departments of Central Government who have increased their outlet which would be basis on their planned outlet. The Central Government which has a significant outlet towards advertisement has a very small portion of about 9% – 10% that is getting allocated towards Digital Cinema as an industry and Digital Cinema is one of the more meaningful sectors where both Central and State Government is focusing because of the benefit that they see. As an industry, Digital Cinema is going to get benefited in the form of a higher share in the total pie that they have. And that is exactly what you see when the same department of Central or State Government increases its allocation towards Digital Cinema and obviously we being the largest player in Digital Cinema becomes the beneficiary. Thirdly, some of the PSUs which were there in the previous years of the same quarter were not doing advertisements, have started doing advertisement in this quarter and that is what got added to the total growth.

Prashant Katara: Did the majority of the growth come from the addition of new states or PSU or the higher allocation by the Central Government or the existing Governments?

Kapil Agarwal: It is a combination of the three.

Moderator: We take the next question from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: In Government advertisement, is the growth entirely driven by volume or is there some bit of realization improvement as well?

Kapil Agarwal: It is volume-led growth because the Government revenue is led by DAVP's rate card and there has been no update in the DAVP rate. We have been camping with the Government for the last 2 years and every quarter we expect that Government will give the increase. So far, the Government has not given an increase.

Ankur Periwal: Have we taken a price hike in Corporate or is there a differential pricing, let's say a super hit movie versus an average movie?

Sanjay Gaikwad: It is a differential pricing.

Ankur Periwal: Have we been too aggressive in terms of differential pricing which we were not earlier?

Sanjay Gaikwad: When there is a blockbuster movie, we do not have enough inventories, so we use that opportunity to start working on the differential pricing.

Ankur Periwal: What is the difference between average and premium rate?

Kapil Agarwal: There will be clients who will be advertising on 50 screens or 100 screens. Then there will be clients who advertise on 500 - 1000 screens, there are clients who are consistently advertising, and then there will be clients who come only for one particular movie, for certain number of screens or certain geographies. That variation is too wide.

Ankur Periwal: Advertisement screens have gone up from 3,690 to 3,750, but if I break it down to multiplex and single screens, there is a significant increase in multiplex screens. Let it be top 50 cities or the other multiplexes. Is this a shift from single screen to multiplex or is it new client which is getting added to aggregate kitty?

Kapil Agarwal: It's a combination. Certain single screens are getting converted to multiplexes. Secondly we are continuing our efforts to garner the advertisement inventory of the screens which we did not have earlier in our court. That in the overall 5,055 screens, or even earlier when we had less than 5,000 screens, we did not have the ad rights on all the screens. Now leaving aside the major multiplex chains, a lot of smaller chains were there who were selling their own ad inventories. We are continuing to garner and have agreement with those multiplex screens to be able to sell their inventory. They are getting added to our ad screen. That is why there is an increase in the number of multiplex screens. In the last few months or couple of quarters, we have signed agreements for selling their ad inventory which we did not have earlier.

Ankur Periwal: Let's say, if we added 50 odd screens as regional multiplex which is getting consolidated with UFO for their advertisement, is it purely for the advertisement part of it or the equipment also gets exchanged?

Kapil Agarwal: The equipment was already there. I am talking about the screens which were part of our universe of 5,055 screens but the advertisement rights were not there. So they were our digital cinema client but not the advertising client. Now we have converted them into advertisement screens also.

Ankur Periwal: What is the aggregate Capex that we are looking at for the pilot phase of NOVA Cinemaz?

Sanjay Gaikwad: Around ₹15 crore.

Ankur Periwal: And this will be for how many screens?

Sanjay Gaikwad: Total 20 screens.

Ankur Periwal: What could be the roughly seating capacity for these screens?

Sanjay Gaikwad: ~200 seaters.

Ankur Periwal: And will this Capex be done over this year and next year?

Sanjay Gaikwad: Yes, over this and next year.

Moderator: The next question is from the line of Vikash Mantri from ICICI Securities.

Vikash Mantri: How to look at the sale of products on a full year basis and why should it go down or up?

Kapil Agarwal: As a business, it is very good news that the equipment sale goes down. Because we are a service Company, we never concentrate on equipment sale. Equipment sale is only a byproduct of our main business. Our main business is advertising backed by digital cinema business. Our service revenues are our main stay and that is where we want to concentrate in the long run. And we like to invest in all the equipment, not sell the equipment. There are certain clients, mainly international clients in the Middle East who like to invest in the equipment. This revenue from the sale of equipment really depends on how many new screens are added in those geographies, mainly outside India. For example, if there were 50 screens that came up in Middle East last year and this year it is only 10 - 20 screens which are coming up then the revenue will go down. This is not our main stay; this is just a hygiene factor for us. If a client demands for the same, then we will sell the equipment to make a profit.

Ashish Malushte: In the product sale there are 2 components; equipment sale and lamp sale. Lamp sale is a perpetual and predictable revenue stream. The overall ratio which was tilted towards equipment sale last year was 75% and lamp was 25% has significantly improved this year with equipment sale being only 42% and lamp being 58%.

Kapil Agarwal: It is actually very good news because lamp sale is a consumable item, which is our perpetual business. Advertising is our perpetual business but equipment sale is one-time business and it is not really our main stay and that is not where we want to strategically concentrate much.

Ashish Malushte: In last Q2 also we had guided on the call, that this was not a planned kind of growth that we have seen in equipment sale, which stood at ~₹19.5 crore last year, and that came down this year to ₹6 crore. Lamp sale on the other the hand has moved up from ₹7.7 crore to ~₹10.5 crore in this particular quarter.

Vikash Mantri: On the advertisement side, you mentioned 40% costs in which around 29% cost is advertisement revenue share, what would be the remaining 11%?

Ashish Malushte: Primarily you have cost of acquisition which was around 8.9% this quarter and then you have sharing cost. Because of the higher revenue that we have generated in this quarter, the sharing cost got a benefit of recoupment of minimum guarantee. And I am happy to inform that this quarter we came down to 27.38% on a quarterly basis. So these two components become direct costs of advertisement. When we explain the first level margin for advertisement, the revenue gets deducted from these two costs. One more direct cost which is the cost of the sales force is currently not there which will be around 9%. The advertisement man power department cost is directly linked with the revenues and it is pegged at around 9% to 9.5% of the total revenue which they generate. So as such it becomes a variable cost. These are primarily a fixed cost and variable cost component in it.

Vikash Mantri: This being a good quarter, had movies like Kabali and Sultan, I would have perhaps thought that it is a time to make the Corporate sector interested in advertising in this medium. But our Corporate sector is not seeing that kind of a growth and it is largely driven by Government. Should it not have been the other way round?

Kapil Agarwal: In ₹91 crore of H1, the Corporate sector contribution is almost ₹38.4 crore. It has grown in 4 years from ₹7 crore in FY12 to ₹38.4 crore in H1FY17.

Vikash Mantri: How does the Corporate sector contribute in more? I thought a good movie would get them interested but that is not the case.

Sanjay Gaikwad: It did contribute although it may look only 16% growth compared to Q2FY16.

Kapil Agarwal: The weeks during which big movies release, the Corporate revenue is higher than the Government revenue. What numbers you are seeing is the 3-month average. If you look at the quarter, you are looking at 13 weeks and big movies do not release in all 13 weeks. While

Government is a consistent advertiser across the weeks even when big movies are not there, Corporate sector does only in the specific weeks when big movies release. We definitely see the Corporate sector contributing higher than the Government sector when there are big releases.

Moderator: The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management.

Dheeresh Pathak: Can you reconcile the Capex number of ₹15 crore for each pilot project for NOVA Cinemaz?

Sanjay Gaikwad: When we say asset-light model for NOVA Cinemaz franchise business, we would be contributing ₹20 lakh per screen. However, in the first pilot, there would be obviously some additional funding which we will be providing while setting up. In case of the greenfield project, we are looking at creating the pre-engineering buildings. Those developments will also be contributed in the initial screens. These 20 screens would be a mix of both Brownfield as well as Greenfield project.

Dheeresh Pathak: In the Greenfield project, what is your Capex per screen?

Sanjay Gaikwad: Approximately ₹3.5 – 4 crore will be the Capex per project.

Dheeresh Pathak: Are these metro cities?

Kapil Agarwal: No, tier-2 & tier-3 cities.

Dheeresh Pathak: In your legacy business, what is the Capex per year if you exclude the NOVA initiatives?

Kapil Agarwal: We have been guiding continuously Capex of ₹50 – 60 crore every year.

Dheeresh Pathak: Does it go mainly in replacing the E-Cinema equipment?

Kapil Agarwal: It goes in additional screens which comes in, plus the replacement capex, plus the other capex of the Company. We have 500 – 600 people directly employed with 24 offices and another 400 off-roll employees. We are running a huge organization that has a routine Capex. But majority is the equipment Capex, which is a combination, of majority of replacement and some new screens that come up every year.

Dheeresh Pathak: What is the E-Cinema equipment replacement cost per screen?

Kapil Agarwal: ₹7 – 8 lakh per screen for E-Cinema and ₹25 – 35 lakh per screen for D-Cinema.

Dheeresh Pathak: How many of your E-Cinema screens come up for renewal every year?

Kapil Agarwal: There is absolutely no pattern as to how many screens are being replaced or how many additional screens are coming up. We are now looking at ₹50 – 60 crore Capex every year which includes everything.

Dheeresh Pathak: What is the life of the E-Cinema equipment?

Kapil Agarwal: For E-Cinema equipment, life is ~7 years and for D-Cinema equipment, life is in excess of 10 years. We are now consistently moving towards replacing more and more E-Cinema projectors with low end D-Cinema projectors so that the ultimate cost of ownership and maintenance comes down. We are moving slowly to replace most of E-Cinema projectors with D-Cinema projectors.

Dheeresh Pathak: Why other expenses and employee cost for the first half have grown faster than the expectation? Is the cost of doing business for the advertisement revenue included in employee cost?

Ashish Malushte: That is correct. That is the reason why you will not be able to segregate that cost out and look at the SG&A related salary cost. But we can work it out separately.

Dheeresh Pathak: The sales force that you deploy, why do you show their overheads or their commission which you call variable cost in the employee cost line item?

Ashish Malushte: If I am the head of sales, I am an employee of UFO, so I get a salary and I get incentives. From a pure accounting point of view, when the accounting and audit goes, both these costs incurred by the Company on me get categorized as employee cost only. When we are doing a management analysis of the numbers, this cost though sitting in salary, for the purpose of better understanding of the numbers, should be taken out from salary and added to variable cost.

Dheeresh Pathak: In your reported numbers, do you include the incentive under employee cost or put it in the other expenses?

Ashish Malushte: All these numbers that we are presenting will be exactly as per Regulation 33. The salary and incentive of the sales force will get added in the overall salary i.e. employee cost item.

Dheeresh Pathak: Other expenses would include what cost related to the ad revenues?

Ashish Malushte: Other expenses include the cost of acquisition i.e agency commissions that you pay for getting the advertisements.

Moderator: The next question from the line of Dikshit Mittal from Subhkam Ventures.

Dikshit Mittal: How many vans are currently operating under Caravan Talkies and when we will breakeven in H2FY17?

Kapil Agarwal: There was no operation in the last quarter because of the monsoons and this year monsoon also got extended. We could re-start the operation almost in the middle of October instead of 1st week of October. And as we speak, we are operating 40 vans which are up and running at the moment and the sales effort to sell the balance vans is right now on. What we have said is that the operating cash breakeven will be in H2FY17 which is the 3rd and 4th quarter combined. So we are expecting that Q3 will be operating cash negative, but Q4 should be much better. On an average, Q3 plus Q4 i.e. H2 will be operating cash breakeven. This is what the guidance we had given earlier and we maintain the same.

Dixit Mittal: In Q4, what will be the number of vans that you will ramp up to?

Kapil Agarwal: We currently have 112 vans which we have bought and we normally give allowance of 10% to 15% for the breakdowns and other stuff. So in Q4, we expect between 80 – 90 vans that should be up and running.

Dixit Mittal: Is NOVA Capex included in the ₹50 – 60 crore of Capex?

Kapil Agarwal: It excludes the NOVA Capex.

Moderator: Thank you. That was the last question, I now hand the conference over to Mr. Urmil Shah for his closing comments.

Urmil Shah: Thank you all for joining the call. I would also like to thank the management of UFO Moviez for their time for the call.

Moderator: On behalf of IDBI Capital market, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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