



UFO Moviez India Limited  
Q4&FY18 Earnings Conference Call

**May 30, 2018**



**MANAGEMENT:**

SANJAY GAIKWAD – FOUNDER & MANAGING DIRECTOR - UFO MOVIEZ INDIA LIMITED

KAPIL AGARWAL – JOINT MANAGING DIRECTOR - UFO MOVIEZ INDIA LIMITED

ASHISH MALUSHTE – CHIEF FINANCIAL OFFICER - UFO MOVIEZ INDIA LIMITED

**ANALYST:**

VIKRAM RAMALINGAM – MAYBANK KIM ENG SECURITIES

**Moderator:** Ladies and gentlemen, good day and welcome to the UFO Moviez Q4&FY18 Earnings Conference Call, hosted by Maybank Kim Eng Securities. 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. Please note that this conference is being recorded. I now hand the conference over to Vikram Ramalingam from Maybank Kim Eng Securities. Thank you and over to you Mr. Ramalingam.

**Vikram Ramalingam:** Thank You. Good Afternoon, Everyone. I would like to welcome the management of UFO Moviez India Limited and thank them for giving us this opportunity.

We have with us today, Mr. Sanjay Gaikwad – Founder & Managing Director, Mr. Kapil Agarwal – Joint Managing Director and Mr. Ashish Malushte – Chief Financial Officer.

I would now hand over the call to the management for their opening remarks and then we will open it for question and answer session. Over to you, Sir.

**Sanjay Gaikwad:** Thank you, Vikram. Greeting to everyone joining us on the earning call. As usual, I will first discuss the highlights of the quarter and year ended March 31, 2018 and then open the floor for questions.

We had a strong performance in Q4FY18 having delivered 73.1% growth in advertisement revenues. Consolidated Revenues grew 4.3% to ₹1,620 Mn. EBITDA increased 16.1% to ₹576 Mn despite planned D-Cinema Sunset impact during this quarter. EBITDA margins have expanded 363 basis points to 35.6% in Q4FY18. PBT grew 38.1% to ₹410 Mn and PAT increased 33.5% to ₹259 Mn.

Advertisement revenues have contributed 48% of operating revenues during the quarter. In-Cinema Advertisement revenues delivered 69.0% volume driven growth to ₹760 Mn during the quarter. In Cinema Advertisement inventory utilization during the quarter grew to 7.39 minutes per screen per show compared to 4.4 minutes per screen per show in Q4FY17. The advertisement share as a percentage of in-cinema advertisement revenues decreased to 22.26% from 27.68% in Q4FY17.

UFO’s advertisement network strength continues to remain robust with 3,897 screens of which 1,194 are multiplex screens.

During the quarter, the Producers and Distributors in South India had threatened to go on strike demanding lower VPF charges. After due negotiations with the Joint Action Committee (JAC) set up by South India Film Chamber of Commerce, we introduced a revised rate card which is chargeable on per show basis compared to the erstwhile flat weekly charge. This rate card was accepted by all the States except the State of Tamil Nadu which decided to go on strike. Thereafter a revised working arrangement was agreed with Tamil Film Producers Council, for a limited period. Both parties will review and take a final decision on the rate structure after 6 months. The annual impact of these changes is estimated to

₹40 Mn to ₹50 Mn which is likely to come down with higher turns of movies due to the introduction of per show rate cards.

Looking at fiscal 2018, advertisement revenue stood at ₹2,136 Mn, a 19.3% growth in the course of several ups and downs for the economy. Consolidated Revenues stood at ₹5,970 Mn. EBITDA stood at ₹1,729 Mn post incurring ₹35 Mn, onetime expense towards Scheme of Arrangement and Amalgamation between UFO and Qube. PBT grew 2.1% to ₹984 Mn and PAT is higher by 3.9% at ₹629 Mn.

D-Cinema Sunset exerted pressure on overall revenues and profitability. However, the recurring business revenues and profits have been offsetting the negative impact of D-Cinema sunset resulting in steady Profitability growth. Recurring EBITDA and PAT have grown by 16% and 98% respectively in FY18. The remnant sunset EBITDA impact of ₹226 Mn is expected to come off in FY19 and FY20.

The company generated cash of ₹949 Mn from operating activities in FY18. As on March 31, 2018 Net Cash stood at ₹1,095 Mn compared to a Net Cash of ₹744 Mn as on March 31, 2017. The Company's DSOs stood at 113 days compared to 89 days as on March 31, 2017 due to strong advertisement revenue in Q4FY18.

During the last two years, we incurred Capex of ₹654 Mn in FY18 and ₹553 Mn in FY17 primarily towards replacement and maintenance of Theatrical equipment. This is expected to be much lower in FY19. Also, we have not incurred any Capex towards adding new Caravans during these years.

Moving to the update on the Scheme of Arrangement and Amalgamation between UFO and Qube, UFO's shareholders have approved the scheme on May 21, 2018. Qube's shareholders' meeting is scheduled on June 6, 2018. I would like to mention that the scheme is progressing as per plan.

In line with the Company's shareholders value creation philosophy, the Board of Directors of the Company has recommended a dividend of ₹12.5 per share, up from ₹8 in FY16 and ₹10 in FY17. This is the third consecutive dividend post IPO. As a result, the dividend payout including DDT stands at ₹427 Mn which is 68% of the Consolidated PAT.

Further, through the Scheme of Arrangement and Amalgamation, UFO will purchase equity shares worth ₹1,170 Mn from Qube shareholders which, on merger with UFO, will get cancelled. This will have the effect of returning capital of ₹1,170 Mn to shareholders. Together with the dividend payout, UFO will return a total of ₹1,600 Mn cash to shareholders.

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

**Moderator:** The first question is from the line of Abhijeet Sinha from Pi - Square Investments.

**Abhijeet Sinha:** With the exciting growth of around 20% coming in, what is the outlook on EBITDA and PAT margins?

- Kapil Agarwal:** Growth will come from advertisement business which fetches ~55% margin and simultaneously we have given an estimate that the remnant sunset EBITDA impact of ₹226 Mn is expected to come off in FY19 and FY20. However, the recurring business revenues and profits have been offsetting the negative impact of D-Cinema sunset. In FY19, the merger process will also get completed. The combination of the advertisement network of over 7,000 screens will thus strengthen the network. We expect annual growth of 20% in the advertisement revenue in FY19 on UFO.
- Abhijeet Sinha:** Qube has a larger influence in South India; post-merger will there be any problem like lower VPF revenues of the South strike?
- Kapil Agarwal:** UFO is expecting an annual impact of ₹40 Mn to ₹50 Mn, which is likely to come down with higher turns of movies due to the introduction of the per show rate card. At the same time, we have always been a big supporter of the per show rate card. Due to this, it has become very easy to release a movie as distributors do not have to pay an upfront amount for a week or for the life of a movie. Instead, they pay on a per show basis. Even in the rest of the Country, which is on a per show rate card, the number of movies releasing has increased substantially over the last few years. South was somehow restricting itself to the weekly rate card which has now been converted to a per show rate card.
- Abhijeet Sinha:** Will we see an increase in Government advertisement spends due to the elections in FY19?
- Kapil Agarwal:** We anticipate Government advertisements to increase because UFO's mass screens are very useful to the Government and with the merger, we will have a reach of over 2,600 cities and towns in the Country.
- Moderator:** The next question is from the line of Sri Harsha MVR from Photon.
- Sri Harsha MVR:** What is the revised per show rate card in South India?
- Kapil Agarwal:** It is ₹290 per show in the first week, ₹250 per show in the second week, ₹200 per show in the third week, ₹100 per show in the fourth week and ₹75 per show fifth week onwards. These rates are decided very carefully. Our Hindi rates are ₹425 per show in the first week and ₹350 per show in the second week and we do not charge from third week onwards. Normally, Hindi movies run only for 2 weeks. In South India, the movies run much longer. That is why we are charging them in the fifth week also. Also, as this charge is sliding, it will not pinch the producers.
- Sri Harsha MVR:** Will this rate change again in 6 months?
- Kapil Agarwal:** The 5 States in South India have created a Joint Action Committee (JAC) and they authorized the JAC to negotiate rates with UFO and Qube. The revised rate card launched in South India was agreed by the JAC. But Tamil Nadu did not accept the revised rate card and they continued the strike. There was a 48 day strike in Tamil Nadu as they did not accept the sliding rates and re-negotiated rates. And there was

discount on the earlier charge. We have mutually agreed only for 6 months and after that we will review its impact.

**Sri Harsha MVR:** What is the discount?

**Kapil Agarwal:** The overall annual impact of these changes is estimated to be ₹40 Mn to ₹50 Mn.

**Sri Harsha MVR:** Why have receivables increased in FY18?

**Kapil Agarwal:** The advertisement revenue grew 73.1% in Q4FY18. We have not got collections for what was executed in February and March. Therefore, the DSO's have gone up, these will be realized in Q1FY19 and Q2H1FY19. If the revenue is back ended; the DSO's always go up because the normal cycle is 90 to 120 days.

**Sri Harsha MVR:** Why has the purchase of equipment, lamps and spares varied in the last few quarters?

**Ashish Malushte:** Purchase of digital cinema expense is actually an expense against the Sale of digital cinema revenue. It is a trading activity and varies quarter on quarter.

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

**Urmil Shah:** Is the pick-up in advertisement revenue in Q4FY18 back ended?

**Kapil Agarwal:** In-cinema advertisement inventory utilization during Q4FY18 grew to 7.39 minutes per screen per show from 4.40 minutes. It was not back ended but spread over 3 months. Both, Government and Corporate sectors grew. The ratio between Government and Corporate, has been constant for last few years and thus, we can anticipate good growth in both sectors. Even this year, the percentage has been maintained.

**Urmil Shah:** What is the outlook on Caravan Talkies? How should we look at it going into FY19 because we were expecting a pick-up in the H1FY19 and it has been slightly below target?

**Kapil Agarwal:** Caravan advertisement revenues have grown from ₹20 Mn to ₹89 Mn Y-o-Y and the current order book position is also good. We are expecting similar growth in FY19 as well in percentage terms.

**Moderator:** The next question is from the line of Abneesh Roy from Edelweiss Financial Services Ltd.

**Abneesh Roy:** Government advertisement revenue in Q4FY18 is very strong. In most of the other media Companies, Government advertisement has not been strong, could you throw some light? And, how do you see FY19 from the Government advertisement perspective?

**Kapil Agarwal:** UFO is a mass medium. Post-merger, we will have a reach of over 2,600 cities and towns. Government advertisements are for masses. UFO has 1,194 multiplex screens while major multiplex chains have 1,408 screens. Government advertisement revenue has never de-grown. In FY17, the Government

advertisement revenue was ₹988 Mn which has increased to ₹1,168 Mn in FY18. It has grown at a CAGR of 16% in the last 5 years.

The advertisement revenue in Q4FY17 had de-grown by 3.65% while in Q4FY18 it grew by 73.05%. In Q2FY18, the advertisement revenue de-grew by 28.14%. Every quarter is different. In FY17, the advertisement revenue grew by 13.41% and by 19.33% in FY18. UFO's business is seasonal and episodic. Our annual guidance for advertisement growth is 20%.

**Abneesh Roy:** Are Government advertisement revenues linked to the pipeline of movies?

**Kapil Agarwal:** No. Budget gets allocated in the beginning of the year and by Q4 all departments try to exhaust those budgets. So, Q4 invariably goes good. At the same time, Q1 is always weak because the budget gets allocated in February - March, the money gets released by end of May or beginning of June. Seasonality in the Government advertisement spending is not because of the release of movies or the kind of movies.

**Abneesh Roy:** One suggestion, you should give the Corporate and Framez revenues split separately because both are completely different buckets. In Q4FY18, how has Corporate and Framez contributed?

**Kapil Agarwal:** Currently, Framez revenue is very small. In FY18, it is just ₹30 Mn of the overall Corporate advertisement revenue of ₹880 Mn. It grew from ₹12 Mn in FY17 to ₹30 Mn in FY18. Once, it reaches a certain size then certainly we will report it separately.

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

**Aejas Lakhani:** What is the relation between good content and ad rates?

**Kapil Agarwal:** Advertisement rates have been constant. In-cinema advertisement revenue has grown by 69.0% while the overall advertisement revenue grew by 73.1%. In-cinema advertisement inventory utilization during Q4FY18 grew to 7.39 minutes per screen per show compared to 4.40 minutes in Q4FY17. So, advertisement rates have remained constant. If a good movie is lined up, the advertisement rates go up and vice-versa. Government rates have been constant because they are finalized by DAVP. Corporate rates do vary substantially from week-to-week but in the end, the average remains steady.

**Aejas Lakhani:** How much will the average advertisement rate per show per screen grow in FY19? Is this only 20%?

**Kapil Agarwal:** Absolutely, if there is no change in the number of screens, growth will be volume driven.

**Aejas Lakhani:** What if the strike that took place in South India takes place in Non South India?

**Kapil Agarwal:** In Non South India, the rates are stable and well-accepted in the market. We have always been supporters of the per show rate card. In South India, ₹9,500 was charged for the first week, even if the movie flops and runs few shows. We always encouraged distributors in South India to convert to a per

show rate card but they did not agree. In South India, the top heroes who were commanding the entire South Indian industry always thought their movies will do well and will run for 5 weeks. Thus, they were happy with the fixed rate card. Except South India, the rest of the Country accepted the per show rate card. Our rates were stabilized for 6 years until 31 March, 2018. Now, we can actually increase the rates but we haven't taken any call on it because we want more footfalls to come and thus, we can push the advertisement revenue. We are not anticipating any major threat in other regions because they are already on the per show rate card.

- Moderator:** The next question is from the line of Hitesh Kumar from Aksa Capital.
- Hitesh Kumar:** What is the split in terms of volume growth between the Corporate and Government in FY18 as compared to FY17?
- Ashish Malushte:** In FY18, the Corporate and Government growth in terms of volume has been 18% and 21% respectively.
- Hitesh Kumar:** Why has the advertisement rates charged for the Corporate and Government been the same for so long?
- Kapil Agarwal:** There has been no revision in the DAVP rates since 2010. However, the Government advertisement revenue has grown by 16% CAGR from FY13 to FY18. On the other hand, the Corporate advertisement revenue has grown by 47% CAGR from FY13 to FY18, it grew from ₹129 Mn to ₹880 Mn. We started with low rates and for past few years Corporate rates on an average are similar to the rates which the Government gives. However, it varies substantially week-on-week depending on the kind of business.
- Hitesh Kumar:** How much increase in advertisement revenue from Corporate and Government has been factored in the 20% growth guidance for FY19?
- Kapil Agarwal:** The pattern has been fixed for the last few years. The Government advertisement contribution has been in the range of 53% - 57%. Simultaneously, Corporate advertisement contribution has been in the range of 43% - 47%. The Government advertisement has been growing on a higher base; it grew at 16% CAGR from FY13 to FY18, while the Corporate advertisement grew at 47% CAGR from FY13 to FY18. Through measurement, which will be launched with the merger, we hope that this pattern will reverse. More growth from Corporate advertisement is expected than the Government.
- Hitesh Kumar:** What is the expenditure that would be incurred in FY19 towards the ongoing Scheme of Arrangement and Amalgamation between UFO and Qube?
- Kapil Agarwal:** Total expenses are approximately ₹100 Mn which includes all the court fees, SEBI fees and legal cost. ₹35 Mn has already been incurred in FY18, the balance ₹65 Mn would be paid towards stamp duty, court fees, etc.
- Moderator:** The next question is from the line of Amit Kumar from Investec Capital Services (India) Pvt. Ltd.

- Amit Kumar:** Does the 20% advertisement growth guidance exclude Qube?
- Kapil Agarwal:** Yes, we have given 20% guidance for UFO only.
- Amit Kumar:** Any update on the merger process?
- Kapil Agarwal:** We have got SEBI's approval. UFO and Qube had filed with NCLT's of Mumbai and Chennai respectively. UFO conducted a shareholders meeting to obtain approval of Composite Scheme of Arrangement and Amalgamation on May 21, 2018 and Qube's meeting is scheduled on June 6, 2018. In case of UFO, the disclosure of voting rights has already been done and the shareholders have overwhelmingly approved the merger. After that, we need to obtain RBI's registration with respect to Form FC – GPR because of their overseas shareholders. We are anticipating that the merger should happen in Q3FY19.
- Amit Kumar:** In FY18, total advertisement revenue stood at ₹2,136 Mn. 57% has been contributed by Government advertisement revenue. What is the outlook here? If we see other media Companies like print that generate ~ ₹2,500 Mn or ₹3,000 Mn on an annual basis, can we expect such level of advertisement revenue from Government?
- Kapil Agarwal:** Going-forward, the major growth should come from the Corporate segment. We are creating a measurement currency since there are many Corporate advertisers, the pilot has already been done and now we are institutionalizing the system from June and post-merger, we will be launching it in the market. Thus, major growth will come from the Corporate segment. We never anticipated the Government advertisement revenue to continue to grow at such a high pace. It has grown by 16% CAGR from FY13 to FY18 while Corporate advertisement revenue has grown by 47% CAGR from FY13 to FY18. We are anticipating that 70% should come from Corporate advertisement while 30% should come from Government advertisement.
- Amit Kumar:** The measurement system you will be formalizing from the month of June but you will launch post-merger, given the fact that you have already spend money on the measurement, why would you not launch in June itself?
- Kapil Agarwal:** We are not waiting for the merger to get completed. The pilot was run in January. We analyzed the results of the pilot and the results are very encouraging. Based on those results, we are launching in the month of June. We need minimum of 3 to 4 months to average out and see the measurement before we can actually launch it in the market.
- Moderator:** The next question is from the line of Dimple Kotak from SKS Capital & Research Pvt. Ltd.
- Dimple Kotak:** Qube has higher amount of revenue share from the product side, will the margins be lower once the merger happens? In VDSPL, when will we see profitability at EBITDA level for FY19?



- Kapil Agarwal:** In FY19, we can definitely see profitability from VDSPL at an EBITDA level. Qube used to be a product Company and is not a product Company anymore. Currently, the product business of Qube is slightly heavier than UFO. But through the merger, we will focus on the service business and on the margins.
- Dimple Kotak:** What is the status of the merger with SDS and the other wholly owned subsidiaries?
- Kapil Agarwal:** This merger has been approved 2 weeks ago by NCLT. However, the order is yet to be issued. Once we receive the order, we will make the announcement.
- Dimple Kotak:** Any impactful changes on the balance sheet once the merger is done?
- Ashish Malushte:** There won't be any significant changes because when Ind-AS was adopted, majority of changes were already accounted for. However, there will be around ₹60 Mn to ₹70 Mn reduction in the goodwill.
- Moderator:** The next question is from the line of Urmil Shah from IDBI Capital.
- Urmil Shah:** What is the outlook on the measurement pilot study by IMRB?
- Sanjay Gaikwad:** The results are very encouraging. The advertisers are looking at the kind of profiles. We will have tremendous appeal to the mid-market urban brands.
- Urmil Shah:** By end of the year, should we expect it to be done across the entire network?
- Kapil Agarwal:** Various studies are conducted. The research Company conducts and decides a sample. They select an acceptable sample of the market and results of that sample are extrapolated. The study from day one will cover the entire network on a sample basis and it will be extrapolated for the entire network.
- Urmil Shah:** Why is payout ratio as a percentage of PAT higher than what we have stated as a policy?
- Kapil Agarwal:** We have declared a dividend payout including DDT of ₹427 Mn which is 68% of the consolidated PAT. In addition, UFO will purchase equity shares worth ₹1,170 Mn from Qube shareholders which, on merger with UFO, will get cancelled. This will have the effect of returning capital of ₹1,170 Mn to shareholders. The capital distribution policy is  $\geq 25\%$  of the consolidated PAT.
- Moderator:** The next question is from the line of Kashyap Jhaveri from Emkay Fincap.
- Kashyap Jhaveri:** What was the net cash flow from operating activities and Capex incur during the year?
- Ashish Malushte:** Net cash flow from operating activities is ₹946 Mn and Capex incurred is ₹654 Mn.
- Moderator:** The next question is from the line of Naveen Jain from Florintree Advisors Pvt. Ltd.

- Naveen Jain:** What is the Capex plans for FY19?
- Kapil Agarwal:** In FY17 and FY18, the Capex was ₹553 Mn and ₹654 Mn respectively. In FY17, we had given a Capex guidance of ₹750 Mn and we ended up incurring ₹654 Mn in FY18. In FY19, we are expecting the Capex to be much lower than FY17 and FY18.
- Naveen Jain:** Once, Qube is integrated in FY19, will we need to do any major Capex to bring the technologies together?
- Kapil Agarwal:** There will be Capex to bring the technologies together. But, we do not anticipate any substantial or very heavy Capex.
- Moderator:** The next question is from the line of Bhavesh Jain from Envision Capital Advisors Pvt. Ltd.
- Bhavesh Jain:** What are the updates on NOVA Cinemaz?
- Sanjay Gaikwad:** We have 21 screens operational, 8 screens will go live by end of May and 18 screens where the agreements are signed or under execution. We will have a total of 47 screens.
- Bhavesh Jain:** In NOVA Cinemaz, out of ₹650 Mn, what is the Capex done in FY18?
- Ashish Malushte:** In FY18, the Capex done in NOVA Cinemaz was less than ₹15 Mn. 2 years ago, we had estimated that the total spent on NOVA Cinemaz will not be more than ₹150 Mn.
- Bhavesh Jain:** The count of single screens is coming down while multiplex screens are going up. From FY14 to FY18, single screens have de-grown by 199 and multiplex screens have grown by 504. Are existing single screens getting converted into multiplex screens?
- Kapil Agarwal:** Due to the availability of digital cinema technology and content, the revenues of single screens have increased and thus are getting converted into 2 or 3 screens complexes which has led to an increase in multiplex screens and reduction in single screens.
- Moderator:** The next question is from the line of Vipul Shah, an Individual Investor.
- Vipul Shah:** In the advertising minutes of 7.39 minutes in Q4FY18, how sustainable is it because Government advertisement is usually very uneven?
- Kapil Agarwal:** It is not uneven. UFO should be looked at on a Y-o-Y basis and not on a Q-o-Q basis. We have grown from 4.34 minutes in FY17 to 5.19 minutes in FY18.
- Vipul Shah:** Can we reach 6 minutes in FY19 considering 20% growth?
- Kapil Agarwal:** Yes. We are anticipating 20% growth over 5.19 minutes.

- Vipul Shah:** What is the basis of sharing advertisement revenue with exhibitors as that ratio keeps fluctuating very sharply Q-o-Q?
- Kapil Agarwal:** There are different kinds of contracts. There are contracts where the percentage of revenue is given. The other is where percentage of revenue is subject to minimum guarantee. When the revenue goes up; the minimum guarantee becomes a smaller percentage and in the quarter if the revenue goes down, sharing in percentage terms goes up. This is the reason behind the fluctuations. Once the revenue reaches a certain point, it would stabilize around 26%. In FY18, the advertisement sharing with exhibitors was 31.75%.
- Vipul Shah:** What is the guidance for D-Cinema revenue contribution in FY19?
- Ashish Malushte:** Over the next 2 years, D-Cinema VPF and rental is expected to have ₹226 Mn EBITDA impact. In FY19, the impact would be higher around ₹170 Mn and the balance would be in FY20.
- Vipul Shah:** The Capex intensity is reducing, what is the capital allocation policy?
- Kapil Agarwal:** The dividend payout including DDT stands at ₹427 Mn which is 68% of the Consolidated PAT. In addition, we will purchase equity shares worth ₹1,170 Mn from Qube shareholders which, on merger with UFO, will get cancelled. This will have the effect of returning capital of ₹1,170 Mn to shareholders.
- Vipul Shah:** Is the merger with Qube 100% through cash or will there be equity dilution?
- Kapil Agarwal:** There is an equity dilution of 31.7%.
- Moderator:** The next question is from the line of Ankit Kedia from Centrum Broking Ltd.
- Ankit Kedia:** Are we empaneled with all State Governments and major PSU's along with the Central Government? Will there be any growth from new clients or will it be from the existing clients?
- Kapil Agarwal:** Theoretically, you have to be empaneled everywhere. Practically, what happens on ground is that DAVP empanels you. All States and PSU's accept DAVP's rates. Some States empanel you at the same price. Some States just accept DAVP's empanelment letter and start giving business. Secondly, we are seeing growth from all the sectors. State budgets are much smaller than the Central Government's budget. The Central Government's structure is replicated in every State. We started with a couple of States 5 years ago and today we are reaching almost 20 States. State revenues are growing; the States which used us 4 years ago today spend more. Some States keep experimenting. We are trying to reach all 30 States in the Country. PSU's are like Corporates such as State Bank of India, LIC or BSNL. These PSU's are competing in the market with the private sector. So, PSU's and State contribution is definitely increasing but surprisingly the Central Government is spending more and more over the years.
- Ankit Kedia:** What is the outlook for hyper local?

- Kapil Agarwal:** Firstly, we have achieved limited success in Framez - the hyper local business. UFO Framez revenue stood at ₹12 Mn in FY17 and ₹30 Mn in FY18. The merger will contribute a lot because Qube is extremely strong in hyper local business. Therefore, we are waiting for the merger to complete so that the expertise from both the Companies can be used.
- Ankit Kedia:** How does Qube do the hyper local business which UFO is unable to do till now? Is it because the South India market is different from Non South market?
- Kapil Agarwal:** Definitely the South India market is different from the Non South market. South India is a hyper local market but at the same time there is lot of potential in the Non South market. In UFO, hyper local contributes 1.5% of the revenue while in Qube, hyper local contributes ~ 17% of the advertisement revenue. UFO's network in South India is not that small. Once combined together, hyper local can contribute a lot.
- Moderator:** The next question is from the line of Jaaneel Jhaveri from JNJ Holdings Pvt. Ltd.
- Jaaneel Jhaveri:** What kind of debt do we have? Why is the interest cost so high?
- Kapil Agarwal:** We do not have any net debt. The net cash in FY17 was ₹744 Mn which has now moved up to ₹1,095 Mn.
- Jaaneel Jhaveri:** What is the gross debt and what is the interest cost?
- Kapil Agarwal:** Gross debt is ₹860 Mn and the average interest rate is under 9%.
- Jaaneel Jhaveri:** Is there any other cost included in it or is it just the interest rate paid on the gross debt?
- Ashish Malushte:** ₹5.8 Mn is the bank charges which gets included in it. One more element of ₹19 Mn which is notional interest gets added because of Ind-AS.
- Moderator:** The next question is from the line of Anand Dubey, an Individual Investor.
- Anand Dubey:** Why is the tax rate so high in FY18?
- Ashish Malushte:** The tax rate at the consolidated level is higher because one of the subsidiaries VDSPL is currently making losses. Therefore, the losses gets added to the total profitability, reducing the profitability, but there is no benefit of reduction in taxes because this remains as an accumulated loss. As a result, the ETR goes up at a consolidated level.
- Anand Dubey:** How do you see the tax rate in FY19?
- Ashish Malushte:** We are expecting a reduction in ETR primarily because we estimate that VDSPL would have a substantial improvement in its performance.

- Anand Dubey:** How do you see the Company's growth 3 years from now?
- Kapil Agarwal:** We have guided for 20% growth in advertisement revenue for FY19 and D-Cinema sunset is coming to an end by FY20. Despite the substantial D-Cinema sunset impact of about ₹349 Mn in FY18; we have delivered growth in PAT. Secondly, when the merger happens there would be lot of cost optimization on the expenses part, thus, contributing directly to the bottom-line of the Company. We will have a much stronger advertisement network of over 7,000 screens network spread over 2,600 cities and towns in the Country. We will have a more compelling proposition for the advertisers. We would be able to provide an all India network which actually no other medium can do today in multiple languages. Post-merger, we will be able to grow at a faster pace. Third, we are institutionalizing a system of measurement and research, so that there is a constant measurement in the system which should further convenience Corporates to advertise on the network.
- Anand Dubey:** What are the key risks to the Company?
- Kapil Agarwal:** We do not see any major risks at the moment. We are working in a competitive environment but we have consolidated various players in the past.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vikram Ramalingam for his closing comments.
- Vikram Ramalingam:** I would like to thank all the participants who joined us on the call and also like to thank the Management for allowing us to host the call. Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Maybank Kim Eng Securities, that concludes today's conference. Thank you for joining 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.