UFO Moviez India Limited
Q2&H1FY20 Earnings Conference Call

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Moderator: Ladies and Gentlemen, good day and welcome to the UFO Moviez India Limited Q2&H1FY20 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 this conference is being recorded. I now hand the conference over to Mr. Vikram Ramalingam from Maybank Kim Eng Securities. Thank you and over to you Sir!

Vikram Ramalingam: Thank you. Good afternoon, ladies and gentlemen. Maybank Kim Eng Securities is pleased to host the management team of UFO Moviez. To discuss the Q2&H1FY20 results. We have with us from the management, Mr. Kapil Agarwal - Joint Managing Director and Mr. Ashish Malushte - Chief Financial Officer. Mr. Agarwal will give us a brief overview of the results and the business. Thank you and over to you Sir!

Kapil Agarwal: Thank you, Vikram. Good afternoon and greetings to everyone and thank you very much for joining us on UFO's Q2&H1FY20 earnings call. Let me first quickly run you through the headline numbers and key operating highlights for the quarter and half year ended September 30, 2019 before we open the floor for questions.

In Q2FY20, Consolidated Revenues stood at ₹1,251 Mn. EBITDA stood at ₹271 Mn, lower by ₹67 Mn compared to Q2FY19. EBITDA was weaker on multiple fronts**,** firstly the Government advertisement revenue were slow as we had also mentioned in our earlier call. Secondly, the planned D-Cinema sunset impacted EBITDA on expected lines and finally E-Cinema VPF revenues were lower than Q2FY19 as multiple successful movies had a longer run at the box office. I will explain this point later. PBT stood at ₹113 Mn. During the quarter, the Finance Minister reduced the tax rate to 25.17%. For Companies carrying deferred tax assets (DTA), which were computed at 34.94% and who now decided to adopt the reduced rate will have to take a one-time write down of net deferred tax assets. Therefore, net deferred tax assets write down on adoption of the new tax regime is ₹126 Mn. As a result, the Tax Expense stands at ₹149 Mn resulting in a Net Loss of ₹35 Mn. Excluding this one-time impact, the Tax Expense would have been ₹23 Mn and the PAT would have been ₹91 Mn. It is strange though when the tax rate goes down, we have to take the write off. This baffles me as a non-accountant and I am sure it must be baffling a lot of other people as well and when the Government has reduced tax, we have to actually take a loan over ₹125 Mn in this.

Total Advertisement revenues during the quarter stood at ₹379 Mn. In Cinema Advertisement revenues declined by 20.6% during the quarter. This decline was primarily on account of weak Government Advertisement revenues, which de-grew by 43% to ₹133 Mn as the Central Government spending were slow. Corporate advertisement revenue grew by 3.7% during the quarter, which is in line with the in cinema advertising industry, which has been facing severe macro-economic headwinds. The month of October continues to remain uncertain for the Government advertisement revenues and we wait patiently for Government advertisement spends to revive.

E-Cinema VPF declined by 3.9% to ₹491 Mn. This is basically strange, but it is primarily because of more successful movies. We charge VPF only during the first two weeks for Hindi movies and its free thereafter, so if there is a more successful movie, from the third week onwards if there more shows goes into third and fourth week they do not pay any VPF to us, which happened in this quarter because in this quarter multiple Hindi movies like Saaho, Mission Mangal, Batla House, Super 30, Dream Girl, Chhichhore and Kabir Singh, all did well and had a longer run beyond the first two weeks, which led to lower VPF E-Cinema. It is not a regular routine thing, it happens really once in a while, so it is nothing to really worry about.

The Net D-Cinema VPF revenues impact on EBITDA was ₹27 Mn, which is in line with the planned Sunset impact, which we have been guiding the market in the past.

Caravan Talkies revenues were also impacted by the slowdown in the Government spending. The revenues for the quarter were lower at ₹23.5 Mn as against ₹41.9 Mn during Q2FY19. However, better realization per van coupled with cost optimization initiatives undertaken by the Company, resulted in lower EBITDA losses by ₹12.7 Mn to only ₹5.9 Mn compared to ₹18.6 Mn in Q2FY19.

In H1FY20, Consolidated Revenues stood at ₹2,519 Mn. EBITDA stood at ₹559 Mn, PBT stood at ₹249 Mn. As mentioned earlier, as a result of the net deferred tax assets write down of ₹126 Mn, the Tax Expense in H1FY20 stands at ₹202 Mn resulting in a PAT of ₹46 Mn. Excluding this one-time impact, the Tax Expense would have been only ₹76 Mn and the PAT would have been ₹173 Mn.

The In Cinema Advertisement revenues in H1FY20 stood at ₹761 Mn, which were lower by 10.8%. I have already explained this point. In this, Corporate advertisement revenue grew by 11.5% to ₹467 Mn while Government advertisement revenue de-grew by 13% to ₹249 Mn.

Further, moving to the balance sheet, as on September 30, 2019, Net Cash stood at ₹697 Mn, which is after distribution of over a billion rupees of Dividend including DDT as compared to ₹1,189 Mn as on March 31, 2019. Also, DSOs have improved to 90 days during the quarter ended September 30, 2019 compared to 119 days as on March 31, 2019 and 95 days as on June 30, 2019.

Now, coming to some non-business items. Just before Diwali, the National Company Law Appellate Tribunal (NCLAT) passed an order setting aside the NCLT order which had dismissed the proposed scheme of arrangement and amalgamation between UFO and Qube. The NCLAT order records that the representative of the Regional Director, Ministry of Corporate Affairs, Western Region has conceded before the NCLAT that the grounds given for rejection of the Scheme in the NCLT Order were uncalled for and the NCLT was only required to notice all the requirements of section 230-232 of Companies Act, 2013 which we were fully compliant with, I insist on that. With the NCLT Order being set aside, we believe that the adverse remarks passed against UFO have also been set aside and UFO's position stands vindicated. Unfortunate, however, owing to the change in circumstances between the time the Scheme was proposed and now, for various reasons, it is no longer possible for the Scheme to proceed as was originally envisaged. Really, unfortunate for us, but that is where we stand.

Finally, on the Nielsen report, the study was commissioned jointly by UFO and Qube and the sample of the combined network was being considered to derive the results which we were planning to make public. However, Qube has recently withdrawn from the study. They do not want to be a part of that study anymore, thus, the report cannot be made public. Now, as the combined study does not correctly represent the results of UFO advertisement network in isolation. It is a recent development and now we are working on our alternate strategy.

With that, I think I have covered all major important events and now I open the floor for questions.

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

Abneesh Roy: In VDSPL, the revenues are lower by ₹18 Mn but the cost has been controlled quite well. How have you reduced the cost and will you be able to further control the cost?

Kapil Agarwal: Last year, the Corporate revenue was coming at a certain price for all the Corporate clients, which was established in the market. But in the last few quarters, we have tried to provide 360 degree activation like door knocks activation and sampling which kept increasing the work, more resources were deployed, more diesel was consumed and the Corporates were still not willing to compromise on the pricing and were still giving us a low price. So, we moved the complete Corporate advertising on a cost plus basis. This was the primary reason, we were able to control costs substantially during this quarter. We do not think there is further scope to control cost, since the Corporate cost is very low and controlled because it is part of a larger organization. However, there is a question of enhancing the margin eventually in the future.

Abneesh Roy: The costs are still higher than the revenue, which I understand is because of the Corporate headquarter cost, does it works on that number which is uniform across the advertiser or again based on negotiations?

Kapil Agarwal: It is based on negotiations. It is very unlike that the DAVP business, whether it is ₹10 lakhs or ₹20 Crores, it is at the DAVP rate i.e.: PSU, Central and State Government. The pricing on a cost plus model really varies from client to client and the volume of business. So is the Corporate business of in-cinema advertising in which the price varies, so it depends on various factors and of course negotiations.

Abneesh Roy: Since FY17, no new vans have been added and we are doing ₹24 Mn of revenue per quarter, which seems to be a small number for any business vertical. What is the long-term plan? How sustainable is this cost plus model in advertising? Do you want to do this business in longer-term?

Kapil Agarwal: We have been toying with these thoughts for the last 2-3 years because we have a substantial investment of time and money, but if you recall, we have frozen the Capex and have not added any vans in the last three years. We said first let us utilize these vans and currently we are very convinced that this is a good business in the long-term because the in-cinema business in rural areas is very appropriate and suited for the Government. In UFO's case 50% to 55% of in-cinema advertisement revenue comes from the Government, which is not the case for multiplex chains or many other mediums. It is because of our non-metro reach and non-urban reach is also as good as our urban reach. Since, these vans are primarily targeted in the rural areas; it is an appropriate medium for Government advertisement. Unfortunately, so far the empanelment of DAVP has not happened. We have been sensitizing various ministries and have been talking to many ministries. A lot of States are now sitting ready to give the bill, but unfortunately DAVP empanelment has not happened. Whenever they empanel a new medium, there is a lot of back and forth, this happened to us even for the in-cinema empanelment also, we had applied for DAVP empanelment in 2006 and we got in 2010. Similarly, for the last couple of years we have been trying very hard. All the files are completed and we are waiting for the trigger, once the trigger happens we think that will bring substantial business. In the meantime, when the PSUs wanted to run the business they had to go through the tender route because the DAVP empanelment was not there. In the last 12 months, we have done quite some business because the PSUs were keen to do business as they really saw the reach. We think empanelment is the trigger for which we are waiting and which could have happened six months ago or which can happen anytime now or it may take another three months, it is not in our hands.

Abneesh Roy: Empanelment is fine, but I do not think consumer is changing significantly because post the disruption by the leading telecom operator everything is available free at the consumers' fingers. The content and bandwidth charges are very low and one beverage Company said in rural area, electricity is also now available at a reasonable cost, why will any consumer come to see at your place when latest content is available on his phone and at a very low cost, don't you think this is the big change which is happening?

Kapil Agarwal: We would not bother about it. When we talk about the leading telecom operator, we are talking about 35 Crore customers all over India. And, the scale that we are talking about currently is 100 or maybe 300-400 vans, what coverage are we going to do with that 300-400 vans. We do not think it is dented because it is the big screen experience and customers are coming to watch it on a large screen with speakers and sound systems, etc. We extensively discussed this logic in the last call also that why people will go to watch a movie in theaters. It is exactly the same thing, this is community viewing where 500 people of the village come and watch a movie together and it is a different experience than that watching on a handheld device. We do not think the volume of our business is going to be impacted.

Abneesh Roy: The General elections are done and a strong party is at the center, don't you see a structural issue here for the next 4-5 quarters at least, the Government spends will remain low and there is no hurry for the Government to spend. The bulk of UFO's advertisement revenue is coming from the Government, although the percentage has gone down, is the recovery going to be there in the Government for the next one year?

Kapil Agarwal: We have been getting very mixed views because, we depend on this business. In Q2FY20, the contribution was only 37% of the Government business because of the reduced volumes. Generally, contribution is in the 50% to 55% range from the Government and this is an important business for us. We are constantly in touch with the Government and so far we are not seeing a structural change in the Government. However, temporarily across mediums and not only our medium, we think that the Government spendings have been low. In September, we got an indication that from October the revenues will be full-fledge, many campaigns are pending and are ready. It is not just the election issue because the Government today is talking about welfare schemes and reaching the masses. Our Government is going in every direction whether it is the Healthy Ministry or NACO or AYUSH or Jan Dhan Yojana, they want to reach the audiences. So, we think it is a temporary phenomena. We do not know when will it end because the indication earlier was October, it has not happened so far, but we will wait patiently for it to opens up.

Moderator: The next question is from the line of Siddharth Mattha from B&K Securities.

Siddharth Mattha: When we are talking about VPF, where many super-hit movies have led to low VPF for this quarter. There are movies like Dabangg 3 and Housefull 4, which are coming; do you expect the VPF to go lower Q-o-Q and Y-o-Y?

Kapil Agarwal: No, it does not happen that way. When many successful movies come in one quarter, we always wish that the movie should succeed because that brings more footfalls into the theater and we can leverage the advertising revenue. But, it never happens that in one quarter so many successful movies come which runs beyond two weeks. It is not that

Dabangg 3 or any other movie is going to impact us, actually it is very good for the economic activity of the cinema that such movies come, but it is very rare in our history. 11 years since we have launched the pay per show model and made third week free, very rarely we have seen this happen, it does not happen every time.

Siddharth Mattha: If you see the movies turnaround is less compared to the previous year, the VPF would be getting affected because as you told the VPF is charged only for two weeks, if the movie runs for more than two weeks then the VPF is going to fall Y-o-Y?

Kapil Agarwal: No, ~1,800 movies are released every year in the Country divided by 52 weeks, so on an average 34 movies are released, there are very few movies which go into the third week and the pattern is if the movie goes into 3,000 screens in the first week it drops to 1,000 screens in the second week and in the third week movies are always running, it is not that movies are going out of screens, but the newer movies take over more shows, which are running in the first and second week and in the third or fourth week a 3,000 screens release movie will probably drop to 200 screens. This always happens on our network, 30 to 35 movies release every week, and on an average, we are running 200 movies at any given point of time. This is our contribution to the film industry that more than 200 movies are running at any given point of time. We have structured the VPF or charging structure to encourage release of more and more movies in the first or second week and get maximum revenue, then new movies take over. That is where we gave this concession because in the third week if we start charging, then they will withdraw the movie from the cinema which will affect our advertising revenues. It is a very thought out thing and we are not worried about it.

Ashish Malushte: The drop in E-Cinema VPF this quarter should not be considered as an indication because Q2FY20 compared to Q1FY20, Q-o-Q there has been an improvement. Last year's performance was 6% above average and this quarter's performance is 5% to 6% below the average. There is a marginal increase and decrease in the same quarter, which is giving this 9% difference, but sequentially the VPF E-Cinema performance in Q2FY20 is higher than Q1FY20.

Moderator: The next question is from the line of Vikas Jain from Financial Quotient.

Vikas Jain: Few of my questions have already been answered by you with a fair opening remarks and question from the fellow members in the call, two interesting things that I have learned in the call is that when the Government reduces the tax rate, the net deferred tax assets have to be written-down, causing an impact and if the movie runs beyond a certain time it results in a lower revenue for us. Can you throw some light on how much share do we have from the Government advertisement revenue in our overall total advertisement revenue?

Kapil Agarwal: In the last few years, it ranges between 50% to 55%. In Q2FY20, it was 37%.

Vikas Jain: What is the outlook in terms of improving it or is the shortfall being met by some other way to maintain the top-line and bottom-line consistency?

Kapil Agarwal: The long-term plan always has been to build the Corporate revenue and in Q2FY20 we have seen across mediums, whether satellite TV, news channels, GEC's across the board in all the listed Companies, we have studied that even the Corporate revenue has been very marginal because there was a general slowdown in the economy. For example, one of the biggest contributors to our pool of the Corporate revenue was the Auto industry. The Auto industry has dropped like anything in Q2FY20, real estate and all these have dropped. In the long-term, Corporate revenue should be 70%-80%. This is exactly where all efforts were put for the merger with Qube and it would have put us in a very strong position to build the Corporate revenue because we would have consolidated the entire Country. Unfortunately justice came but it is too late. Whether it was Nielsen study where now Qube has withdrawn or whether consolidation with Qube, all our efforts are towards building the Corporate revenue, it should be 70%-80% eventually. And, that is where the Government revenue should become irrelevant. Secondly, we are now reducing our dependence from the Central Government revenue because it is from one ministry i.e. DAVP, I&B Ministry. But, we have been actively building the PSU revenue, which is part of our Government revenue. We have also been actively building our revenue from the State Governments. Today, we are working with 19 State Governments who are advertising with us and contributing to our revenue, otherwise this drop would have been much larger if we were not able to build that revenue. As we said, our effort is minimize the share of Central Government in percentage terms in the enhanced revenue.

Vikas Jain: Could you throw some light on the cash flow position of H1FY20?

Ashish Malushte: The Net Cash stands at ₹697.1 Mn this quarter and this is after the dividend payout of over a billion rupees including DDT. The gross debt is ₹708.6 Mn and the gross cash is ₹1,405.7 Mn.

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

Urmil Shah: For the second half, generally which is very good for Government advertisements given that you are reducing the dependence on the same. What is the outlook for H2FY20? Since, it will be very important for the second half to be strong for overall EBITDA to be somewhere at least 10%-15% lower than last year.

Kapil Agarwal: This is where all our efforts are and we are working in all the directions. The Central Government advertising has not opened yet and we are already sitting on the end of the first week of November. In Q2, there has been very slow and selective advertising. In Q3, already 5 weeks have passed, but as mentioned earlier, we have very strong indication from the Ministry that from October it will start which has not yet started. There is a lot of business in the pipeline and they continue to tell us that it is opening up but we remain hopeful. We cannot unfortunately predict what the Central Government is going to do.

Urmil Shah: Regarding the monitoring of the data, when can we expect it or at least when are we getting the sense of the trend of how it has been?

Kapil Agarwal: Unfortunately, we cannot use the combined data and are working on an alternate strategy. We will be unveiling our steps in the next few weeks, months or quarters as and when they become live. Things have gone wrong with us whether it was the NCLT order or the Nielsen study. So, we do not want to give any hope to the market right now, as soon as the plan gets firm, we will keep unveiling the plans to the market.

Urmil Shah: How should we look at the capital deployment, seeing those scenarios wherein we are gearing up the capital for pursuing the consolidation and where the consolidation might look difficult? In both the cases on a standalone basis, how should we look at the capital deployment?

Ashish Malushte: On the capital allocation part, we actually took the first step when things were not really clear on the merger with Qube and we decided to give a substantial portion back to the investors which has been the thought process of the Company. Whatever is the cash available which is not likely to be deployed immediately for the related businesses should go back to the investors and that is something which we have been doing in the past and would continue to happen in future after considering the possible opportunities that we have for expanding the business which also includes expanding our existing business that primarily the investment goes into Capex.

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

Krunal Shah: What is the E-Cinema VPF revenue share between Hollywood, Bollywood and Regional movies?

Ashish Malushte: As far as the E-Cinema VPF is considered, there is no revenue from Hollywood English films. The Indian films are split into 2 parts: Hindi and Non-Hindi films. In Q2FY20, the Hindi constitutes 46% and Non-Hindi constitutes 54% of E-Cinema VPF revenue. In Q1FY20, the Hindi constitutes 47% and Non-Hindi constitutes 53% of E-Cinema VPF revenue.

Krunal Shah: How much more decline is expected in terms of the D-Cinema sunset?

Ashish Malushte: In the current year, we are expecting D-Cinema sunset impact on EBITDA of another ₹80-90 Mn in the next two quarters and the final trench of about ₹45-50 Mn will be in FY21.

Krunal Shah: We had a quarterly revenue of around ₹87 Mn VPF D-Cinema in Q2FY20, if I were to account for say ₹87 Mn x 2 quarters would be ~₹180 Mn and I take out ₹80-90 Mn from that?

Ashish Malushte: In Q4FY19, we had a higher revenue and that is the reason why on a Y-o-Y basis this revenue comes down. The actual revenue of D-Cinema in Q4FY19 was substantially higher than ₹87 Mn, it was ₹148 Mn, since that revenue was higher when you compare it with the current year's revenue that would go down and that is what is we call as sunset comparison of current year's revenue versus previous year.

Krunal Shah: So, it is a Y-o-Y?

Ashish Malushte: Yes, in other words, apart from another ₹70 Mn of further reduction there is nothing more that is going to go out of the existing revenue fit.

Krunal Shah: There has been a slight improvement in the UFO advertisement screens Q-o-Q. Is this something in terms of significant uptake or is it probably seasonal?

Ashish Malushte: It is not only a seasonal phenomenon. The number you see and comes into existence are based on the efforts which are put in by all our regional heads across the Country, thus the multiplex pie has been growing consistently.

Krunal Shah: Basically, it is the multiplex, which have come up from the smaller screens, which is added to the screen?

Ashish Malushte: Correct, which is a very positive aspect for our overall quality of UFO's advertisement cinema network.

Krunal Shah: Yes, absolutely because something, which you are trying to do for a longtime and small uptake is also even good in that sense.

Ashish Malushte: Right.

Moderator: The next question is from the line of Vaibhav Badjatya from HNI Investment.

Vaibhav Badjatya: On the declined Government expenditure or advertising, do you think that for 9MFY19 the revenue from the Government advertising was somehow abnormally high? Would that give us a space or do you think that last year was normal and was there anything abnormal about last year?

Kapil Agarwal: The Government revenues have a trend. Q1 is the lowest and Q4 is the highest because all the departments have to finish their budgets, if they do not spend the budgeted money, they will not get the next year's allocation. Thus, normally Q4 happens to be the highest. ₹133 Mn is the revenue in Q2FY20, we have seen ₹500-₹550 Mn revenue also in Q4. The revenues vary and last year it was very normal. Q3FY19 was not extraordinarily high.

Vaibhav Badjatya: When we look at the growth, it looks really down this year. Whether there was something abnormally high in the base or it was the normal two quarters?

Kapil Agarwal: If you pick up any listed Company in print, radio, TV or news channels, there are many Companies where the contribution from the Government advertising is higher, they all have seen a double digit decline.

Vaibhav Badjatya: I agree.

Kapil Agarwal: It is not the comparison which is pulling it down, that the previous year was very high and this year it is very low. It is the overall Central Government advertising revenues, which has gone down. It is not a structural change, but, it has gone down and has affected the entire Media industry and we are also a part of that. When we look at multiplex chains, they are less affected because they are less dependent on Government advertising. We do not have the breakup of Government advertising for radio, TV, news channels, print medium where the dependence on Government like us is very high. They all are showing double-digit drop and we are affected in the larger part of the whole industry.

Vaibhav Badjatya: Are you seeing an indication from the various point of contacts in Government? Is there any change in the advertising budget for the year or there is a substantial change in the advertising budget or you are not getting any such indication?

Kapil Agarwal: There is absolutely no paring of the budget and no reduction in the budget; it is just that advertising is not happening. When we were talking in one of the discussion in the ministry, we were being told that against ₹15,000 Mn they have spent only ₹1,000 Mn, so far we do not know how authentic this figure is. They have a budget and the moment it opens up there might be again an effort to try to finish these budgets to be able to get next year's allocation. There are many campaigns, which are sitting ready in the ministry, which might start kicking in once it opens up. Again, we not giving any assurance to the market.

Vaibhav Badjatya: The Ministry you are talking about is DAVP right or we deal with multiple ministries?

Kapil Agarwal: By and large, the Central Government business comes through DAVP. But, obviously we go, sell and market ourselves, we create demand in various ministries because each ministry prepares their own media mix and they say whether they want to put it on TV or radio. We create demand in various ministries, thus we have to be very active in all the ministries and they do not release the campaign directly, they have to release it through DAVP by law as per the system of the Central Government. Then they write to them that we also want cinema in the mix and we want to do only cinema right now, etc., that is internally between the DAVP and the ministry and then they decide the media mix, but we created demand for the cinema industry.

Vaibhav Badjatya: Some time ago there was an increase in the DAVP rates. We know that how the Government functions on budget allocations, do you think that it is possible that the revenue might not get impacted over the long-term because of revenue revision rates, but the volume might get reduced and will free up of more space for other advertising in the total mix?

Kapil Agarwal: We have no idea on how the budget allocations take place and how the Central Government is working there. We would say in the short run, the overall revenue might not go up, but in the long run they will not reduce advertising, they will start incorporating the increased rates in their budgets and over a longer run the revenue should increase, otherwise there is no meaning. In any case, even if the Central Government does less spending, we will have more minutes free to sell part of the Corporate advertising and we will benefit either way.

Vaibhav Badjatya: Can you give a broad estimate that what would be the PBT from sunset part of the business for the full year FY20 and FY21?

Ashish Malushte: The PBT impact now is going to be almost 90% of the EBITDA impact. The impact would be ₹80 to ₹90 Mn for H2FY20 and ₹45 to ₹50 Mn for next financial year. Basically, these numbers are EBITDA numbers and almost 90% of that will travel as a PBT number.

Moderator: The next question is from the line of Nagaraja Rao from Sun Capital Advisory Services.

Nagaraja Rao: This quarter, especially the half year looks to be a little longer working cycle, especially in terms of debtors, can you throw some light on that?

Ashish Malushte: The DSOs have come actually come down and the realization has been significantly higher. The realization from debtors in Q1FY20 was significantly higher and in Q2FY20 there was about ₹25-30 Mn of working capital which were stuck because of high debtors. But, in H1FY20, the DSOs have come down to 90 days from a level of 119 days and that actually translated into higher realization of cash.

Kapil Agarwal: I do not know how you got that impression because from 119 days in March, 95 days in June, the DSOs have come down to 90 days as of September.

Nagaraja Rao: I only want the absolute debtors figure because it slightly looks high when you compare it to H1FY19 which was ~₹1,400 Mn.

Kapil Agarwal: But that will all depend on the revenue.

Nagaraja Rao: Is it because of more dependence, especially on the Government?

Kapil Agarwal: The revenue will keep varying Q-o-Q, each half, each year. The DSOs from 119 days in FY19 has come down to 90 days in H1FY20.

Ashish Malushte: The DSOs from 87 days in H1FY19 has only marginally increased to 90 days in H1FY20 on an LTM basis.

Nagaraja Rao: And the half year? In FY19 for ₹6,169 Mn revenue, we had ₹2,007 Mn debtors. In H1FY20 for ₹2,519 Mn revenue, we have ₹1,481 Mn debtors.

Kapil Agarwal: We look at Q-o-Q comparison or at March. In March, the debtors will always be higher because a lot of the Government business gets pushed in the last quarter and post debtors outstand higher revenue. In Q2FY20, the Government advertising revenue is ₹133 Mn and in Q4FY19, it was ₹476 Mn, all gets pushed into the debtors and that is what we monitor. If we compared with March, which is probably not the right comparison, it is 119 days versus 90 days in H1FY20. If we compare with H1FY19, it is 87 days versus 90 days because all gets equalized over the next 3-4 months whatever gets accumulated in the March; this is the way to look at it actually instead of absolute number.

Moderator: The next question is from the line of Manish Kavadia an Individual Investor.

Manish Kavadia: Any kind of indication of when the merger with Qube might happen in the future after the order from NCLAT?

Kapil Agarwal: The merger with Qube is off the table and as of now, there is no merger. If it gets revived, we will inform the market accordingly, but right now there is no talk of a merger. We had already informed this to the market as soon as the rejection of NCLT happened. The scheme had multiple participants, one of the participants was ICICI Venture and Pantheon Partners who were funding part of the deal and immediately after the rejection they had withdrawn from the deal so that merger scheme was not valid anymore. The reason we went to NCLAT and filed the appeal against the order was because we really believed that what we did was right and the comments made by NCLT were uncharitable against us and they were not right. We believe that with due respect to NCLT, we went against the order to at least convey to the market and let people know that we were not wrong because the kind of comments which were passed basically showed as if we were a fraud Company. We really fought for the honour and not really for the merger.

Manish Kavadia: Have you had any discussion with the Qube management around what might be a good time to explore this again?

Kapil Agarwal: We always keep discussing with Qube and other players. We keep exploring the various inorganic opportunities and it is always that something or the other is going on, whenever something matures, we will inform the market. But, as we firmly said that as of now the Qube merger is off the table.

Manish Kavadia: What was the reason given by Qube for pulling out of the Nielsen study that they do not see value in it or because there was no merger happening?

Kapil Agarwal: We do not know. Probably, the study was commissioned on our insistence because everybody knew when this study was commissioned that we are going to merge, we saw more value in the study and moving to a number based advertising revenue than probably they saw. But at that point time, they agreed with us to go in for this because the whole plan was that ultimately in a few months it is going to be a combined network so let us do the study and keep it ready. When the merger happens; we were planning to launch these numbers immediately. A lot of money was going to be spent on the study on a perpetual basis over the next five years; which was in crores. The merger is off the table and not happening anymore. When the study was happening there was a lot of sharing of each other's data respectively, earlier the fear of sharing data was not there but, today we are in the position that Qube is our competitor, as we were always competitors. We were going to merge and there was light at the end of the tunnel, but, today we are again competitors, they might not feel comfortable, their belief might have been different or there maybe a financial reason. There could be a mix of various reasons that they might have decided to withdraw from the study.

Manish Kavadia: What are some of the options that we are exploring to derive the same benefit that would have with the Nielsen study to push Corporate advertising further in terms of showing how effective or valuable it is to advertise?

Kapil Agarwal: We are working on various measures and will keep the market informed. In the past, what we were planning to do, we had shared it with the market and it built up the market expectations. Two important things which had built the market expectations and did not happen, one is the merger with Qube and the other is the AC Nielsen study, where the market had very high expectations. We did not say anything wrong to the market, we did not misinform the market, we just shared what we were planning, but unfortunately, these two big things did not happen. We do not want to say anything right now. We have many new things that are in the work and will keep informing the market as and when they start maturing. But, certainly all the efforts are towards building the Corporate revenue. In the revenue mix, we want to have 70%-80% coming from Corporate.

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

Dipan Mehta: Consistently, we are seeing that the Company is stagnating in terms of top line for some or the other reasons, sometimes it is D-Cinema, the Government spending coming down or the private sector. What is the long-term vision of the Management because in the last 3-4 years the stock price and the Company performances on a bottom line basis has really gone nowhere. What exactly is the vision that in 2-3 years' time, where do you see the Company? As you said, you are viable in the growth oriented model or not because somehow something goes right, something else goes wrong and net, net we are just there or slightly lower in terms of the bottom line?

Kapil Agarwal: I completely agree with you, Dipan and you have actually taken my heart out to say all this. This is exactly the way we see because today all our efforts, as far as, D-Cinema sunset is concerned, it was predicted, we have declared it in our market communications, that ₹600-650 Mn will go away and the amount was always known, and declared. Now to counter, one was the VPF sunset and other was the annual increase in the salary and rentals expenses. To counter these two negative impacts and to deliver growth, we had various plans in place. One of the biggest plan was the Qube merger and everything would have been delivered with that. For no fault of ours, we have been only unfortunate that this kind of an order was delivered by NCLT Mumbai, which we went against us and now that the order has been overturned, we cannot do the merger because of changes in various circumstances. We would say it is unfortunate that whatever negative has to happen continues happening, whatever positive is planned has not happened and we do not know how to explain it despite of the best practices that we decide to employ. As you said, viable growth oriented model, we will separate the two, viability is there in the last four years, tell me one Company that has given the kind of dividend that we have been giving and it is all cash that we have been distributing. We distributed dividend of 80% in

FY16, 100% in FY17, 125% in FY18 and then 300% in FY19, which is viable and the efforts are to make it growth oriented. We have discussed in today's call on the various efforts, but if the plans do not happen in the short-term, growth gets affected. We are serious about delivering growth and we will continue to put all our efforts.

Dipan Mehta: Are you still pursuing the merger with Qube, or it is now completely in the back burner? Are you in discussion with them, even on a preliminary basis and you can always work out a new scheme, is there anything to prevent you from doing that?

Kapil Agarwal: We can work out a new scheme; we completely agree with you but we think the substantial change has been the stock price drop.

Dipan Mehta: Their stock price would have also dropped know, valuation all at the end of the day are interlinked?

Kapil Agarwal: This is exactly what the contradiction is. The scheme, 55% equity of Qube was held by overseas private equity investors, that were selling 55% of their Qube stake to us. Today, after paying 300% dividend, we are giving 20% yield, the market cap is ₹4,000 Mn, does it justify anything, our price discovery happened because we are a listed Company, the price discovery is linked to the stock price, for whatever reason it keeps going down despite giving such a healthy performance. Their own 55% shareholders do not believe, we were buying that equity at around ₹6,000 Mn of the Qube valuation. Qube is at ₹6,000 Mn valuation today; we cannot bring them down to ₹2,000 Mn. They are not willing and they are actual shareholders, they say your stock prices have gone down, which is in the contradiction to your performance why should we sell at ₹2,000 Mn. They have invested for a decade and will continue to remain invested for another five years. It is not about the Qube management or Qube. The key is in the hands of the external shareholders who are not willing to mark down their investment to the extent that a sharp decline in UFO's stock price and we cannot go back to my shareholders for a scheme where my market cap is ₹4,000-4,500 Mn. We are carrying ~₹700 Mn of net cash after declaring so much of a dividend, we are valued at less than ₹4,000 Mn and if we give them ₹5,000 Mn, which is a much smaller Company in terms of the profitability, number of screens, etc., then we cannot go back to our shareholders.

Dipan Mehta: They are categorically against the stocks. That takes up all the valuation issues. If you just do all stock merger and they become shareholders in your Company there is a dilution at your end, but is that not an option where all these grey areas?

Kapil Agarwal: Basically, after the negative NCLT order, their 55% private equity shareholders were very clear that they do not want to enter into something, which is subject to any external risk. That means you have to go for approvals, sit across the table and discuss the price, pay the money and take 55% equity which we could do. We had the money before distributing the dividend. The Qube promoters were agreeing for the share swap, but we could not guarantee them that after we buy this 55% equity that UFO shareholders would agree to the share swap. It is a preferential allotment and we would have to necessarily get approvals from the shareholders. It is in two buckets, one is the 55% equity in cash and second is the promoter equity and there are some third party India equity in Qube. Thus, we have made a very strong and clear statement that currently the merger is off the table. When we did the valuation, our stock price was ₹393. At ₹393, we had done all the calculations as per the formula. Today, we are at ₹130-140, it is more than a 60% decline.

Moderator: The next question is from the line of Sridhar Partha from ICRA Ltd.

Sridhar Partha: Given the drop in stock prices and the kind of cash generation is happening, are there any plans to do a buyback?

Kapil Agarwal: We have not discussed any buyback in our Board. A couple of quarters back, when we had declared a 300% dividend i.e. ₹30 dividend at that point of time we had explored that whether we give the dividend or we do the buyback and there was a strong possibility at that time of doing the buyback. However, we voted in favor of the dividend because if we did the buyback, we would have to put the Qube merger off the table and at that point of time it seemed the merger was still possible. The stock price and various things were right. If we had done a buyback under the SEBI regulation for one year, we cannot raise any new capital and any share swap would have been by raising new capital. Therefore, we decided in the favor of giving the dividend. At that point of time, we said we should reward our shareholders. Post that we have not discussed any buyback in the Board. We continue discussing various organic and inorganic opportunities to deliver growth, which will keep the market sensitized and in case there is a talk of buyback in the future definitely, we will come back to the market.

Sridhar Partha: What you said in certain situations, because of which the Management took a prudent call of offering dividend to the shareholders, which is good but given the change in scenario and given the fact that the stock price is very down, the stock price was about ₹290. Today, it is at almost half the price therefore the question is does it warrant to go and do a buyback and this is just a suggestion. I am sure Management will take a right call at the appropriate time.

Kapil Agarwal: We completely agree with you. We see huge value in your suggestion and honestly, we did not think about it in recent times because we are focusing on various other things. We will definitely take this thought back in the next Board meeting.

Moderator: The next question is from the line of Vaibhav Badjatya from HNI Investment.

Vaibhav Badjatya: What is the Capex forecast for FY20 and FY21?

Kapil Agarwal: We are out of the Capex cycle. There is a very limited Capex in the new screens. At one point of time, we were on a huge Capex cycle. In FY14, we had done ₹1,459 Mn of Capex because we were converting from analog to digital. It was a very huge Capex in a very huge competitive environment. Now, we are out of the Capex cycle apart from few new screens which are coming up where the Capex goes. Secondly, we have the planned replacement of the older projectors where the Capex goes and the normal Capex like cars, vehicles and office happens. This is where all the Capex goes, which we have been controlling Y-o-Y and that is what is throwing a lot of cash. In H1FY20, the total Capex was ~₹190 Mn and in H2FY20 we would do ~₹250 Mn of Capex. Thus, the overall Capex in the year would be from ₹400-500 Mn.

Vaibhav Badjatya: Broadly, this Capex is for replacement of the older equipments. Over the long term, the depreciation and Capex should not differ a lot except for the newer screens, but the deprecation is ~₹700-750 Mn annually. Since, the last few quarters and also last year the Capex was only ₹400-450 Mn. How is the difference coming up and is the price of projectors going down or what has actually happened?

Kapil Agarwal: That is only when the old Capex which is depreciated over 7-8 years. Three years ago, we were on a very high Capex cycle. It is only in the last 2-3 years that the Capex has started going down, so till the complete impact of the older Capex does not go out, till then the depreciation will be higher than the Capex at some point of time it will also start merging, but we think that cycle has not come yet.

Vaibhav Badjatya: Over the course of the next 3-5 years, it should converge and the Capex should increase and go in line with the deprecation?

Kapil Agarwal: Absolutely, that is why we were not giving any numbers, but conceptually this is the difference.

Vaibhav Badjatya: There have been talks on the dividend, I just wanted to put this thing forward on the call is whenever we decide on the buyback or dividend I would give a suggestion to the Management that still consider that there might be some changes in the budget given a lot of talks going on in terms of taxation for dividend and buybacks, etc., it would be better if a decision is reached after the clarity measures on that front that is the only point that I would like to make.

Moderator: Thank you very much Sir. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vikram Ramalingam for his closing comments. Sir over to you.

Vikram Ramalingam: Thank you. On behalf of Maybank Kim Eng Securities, we would like to thank the management of UFO Moviez as well as all the other participants. Good day.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of UFO Moviez India Limited that concludes this conference call. Thank you for joining with 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.