



UFO Moviez India Limited
Q4&FY21 Earnings Conference Call

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MANAGEMENT:

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ANALYST:

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Moderator: Ladies and gentlemen, Good afternoon and welcome to the Q4&FY21 UFO Moviez earnings call organized by Batlivala and Karani Securities India Private Limited. At this moment all participants are in a listen only mode. Later, we will conduct a question and answer session. And that time if you have a question, please press *1. Please note that this conference is recorded. I will now like to turn the conference over to Mr. Yogesh Kirve. Thank you and over to you sir.

Yogesh Kirve: Thank you Yashashri. Good afternoon to all the participants and thank you for joining in. We at Batlivala and Karani Securities are pleased to host this earnings call for UFO Moviez India Limited. To discuss the results and the business outlook we have the senior management of the company represented by Mr. Kapil Agarwal, Joint Managing Director and Mr. Ashish Malushte Chief Financial Officer. I will now hand over the call to Mr. Agarwal for his opening remarks, which will be followed by a question and answer session.

Kapil Agarwal: Greetings everyone and thank you all for joining us on UFO's Q4&FY21 earnings call. Glad to connect with all of you after a lapse of almost more than a year. I do hope and believe that all of you and your loved ones and colleagues are safe amidst this COVID-19 pandemic.

The year gone by has been extraordinarily challenging for all of us and our business in many ways. As we know, with the declaration of shutdown due to the COVID-19 pandemic, cinema business has been severely affected, thereby impacting the Company's performance. During FY21, the Company earned negligible revenues as the business operations were halted since the beginning of the year due to the closure of cinemas. After a prolonged closure, cinemas were allowed to reopen from mid-October 2020 with SOP's and 50% seating capacity. That was also staggered in different states due to the constrained seating capacity and weak content pipeline as the tent pole movie didn't want to release when the cinemas did not open completely. Also, many cinemas chose not to reopen. However, once the restrictions on the seating capacity were lifted, the Southern markets witnessed huge number of releases including big-budget films like *Master* and *Vakeel Saab*. Excellent response on the box office for these movies demonstrated the willingness of the audiences to quickly return to the theatres and enjoy the cinematic experience with their families and friends. While the Southern markets were almost back to normal, other markets took more time to start releasing the big-budget movies. However, encouraged by the box office responses in Southern markets, content owners in Bollywood and other markets also started announcing release dates for their movies by the end of February/early March 2021. This included tent pole movies like *Sooryavanshi*, *83*, *Radhe*, etc. However, just when it looked like that the release of these movies would give the industry a much-needed push the country witnessed the second wave of the COVID-19 pandemic, thereby once again leading to the closure of cinemas.

The second wave has turned out to be more lethal and has spread across the country in a very short span of time. It has severely impacted not only cinemas but other consumer discretionary businesses as well due to the restrictions and lockdowns imposed by various state governments. From a business perspective, due to this massive wave, the journey continues to be difficult and challenging. However, we feel that these challenging times won't last as we have seen signs of peaking of the second wave and its flattening curve. I am proud to say that even though the operation was severely impacted, we have taken good care of our employees with a prompt transition to work from home culture and have provided all the necessary setup to them for smooth functioning. Wellness and well-being along with effective communication and collaboration have been the core of all our actions during these times. Our UFO family has stood together and continues to work harder towards a better tomorrow.

Having said that, from a business sustainability perspective, the company had to adopt various cost optimization measures right from the beginning of the pandemic, including a reduction in fixed costs and salaries.

I would also like to take you through some interesting developments on the business front. As the lockdown was implemented, and we slowly adapted to the new working environment, we decided to explore new business streams by leveraging our existing resources and infrastructure. The first one is the film distribution business, a natural backward integration for UFO. The endeavour is guided by a threefold objective. First, launching fee-based film distribution business with zero content risk. Second, building a robust professional architecture which can effectively handle the film distribution throughout India. Third, charging the virtual print fee as a percentage of box-office revenue instead of an upfront fixed charge to

facilitate the wider release of movies. During this short period of three months, since the launching of the distribution business and before the cinemas were shut down again due to the second wave, we distributed 12 movies which is almost one movie per week. Some of the movies distributed on an all India basis were Jio's *Ram Prasad ki Tervi*, *Shakeela* starring Richa Chadda and Pankaj Tripathi, Ram Gopal Verma's *12 O' Clock*, English movie *The Marksman*, and a thriller called *Flight*, etc. The other movies distributed by us in select circuits including movies across languages, includes the mega Tamil hit *Master*, *Naandhi*, *Chakra*, *Check*, *Mosagallu*, etc. This initiative has been accepted across the value chain and has also helped theatres reopen post pandemics with the ensured line up of content. Agreements for more and bigger movies were underway before the cinemas were shut down due to the second wave. However, given the response from content owners and our acceptability as an all India corporate distributor, we are confident that we are here to stay in this business and this vertical will start generating steady revenues going forward for the company.

The pandemic made us realize that we were dependent on a single business that is Cinema, which no one ever thought will face a prolonged closer bringing revenue to near zero. Therefore, we worked towards ring-fencing the company through diversification into non- cinema related businesses and set our eyes on social media and digital.

Social media is the fastest-growing advertising medium and globally around 6 to 8% of the total spend on digital advertising is by way of influencer marketing. As per industry sources, in India, annual spend on digital advertising is around ₹20,000 Crore of which nearly ₹400 Crore are spent on influencer marketing. As per global benchmarks, annual spend on influencer marketing in India should be anywhere between ₹1,200 to ₹1,600 Crore while actually right now it is only ₹400 Crore and with more and more advertisers allocating budget for digital advertising influencer marketing has substantial growth potential in years to come. So, we signed an agreement with Collective artist's network private limited to provide social media marketing services.

Collective is India's leading talent management agency having an exclusive agreement with around 270 celebrities from various walks of life, such as Bollywood, Kollywood, sports, etc. Some of these celebrities are Deepika Padukone, Shraddha Kapoor, Kriti Sanon, Ranbir Kapoor, Tiger Shroff, Karthik Aryan, Rana Dagupatti, cricketer R. Ashwin, etc. and all these are exclusive agreements with them. In addition, it also has over 5000 social media influencers on this network. Collective monetizes these social media assets of celebrities and social media influencers on its network through its division called BigBang Social. At the same time, we have an experienced pan India team of sales and marketing professionals to monetize exclusive In-Cinema advertising rights. With the help of Collective, we utilized this pandemic period to re-skill our sales and marketing teams to expand UFO's reach in this space in addition to our core business of in-cinema advertising. Social media opportunities are 24/7 business and will only grow with the penetration of digital in our lives and digital medium becoming critical for being success of brands. This is one agreement that we have signed and we are now in the process of stabilizing it.

We have also ventured into B2C digital space by launching two initiatives namely - Zinglin which is a short video content app, and Plexigo which is a premium content discovery OTT platform. Currently, these businesses have been soft-launched and are at a nascent stage. However, as we know certain businesses have a huge value creation potential in the long term, we will continue to provide updates on these businesses in due course.

Coming back to the core business, the exhibition business industry has laid its hopes on the success of vaccination drive across India, which can help in relaxation of social distancing norms and may act as a Sanjivani to the industry. This belief stems from the fact that some of the developed countries like the US, UK, Israel, who have successfully vaccinated a large part of their population have been able to gradually restore normalcy. The US has recently announced that the individuals who have been fully vaccinated are no more required to even wear the mask or maintain the social distancing. At the same time good news of people returning to cinemas and growing box office collections has been coming from across the world, wherever the lockdowns has been lifted like for example the US, UK, France, China, Middle East. Last week, the latest release *Peter Rabbit 2: The Runaway* has collected \$10 million at the UK box office just in three days of the first weekend. These are the best weekend collection since March 2020 and almost at par with the pre-pandemics scenario. UK exhibition industry is celebrating this promising return to normalcy wherein in addition to recovery in footfalls significant increase in F&B sales was also witnessed.

There are also reports of promising pre-sales for the other upcoming movies like *Cruella*, *Demon Slayer*, and *The Conjuring*. The experience in these markets and even back home in the South Indian market wherever the restrictions were lifted and tentpole movies released proves beyond doubt that people are willing to come back to the cinemas and it is just a matter of time. And all predictions of death of cinema business due to OTT and other platforms have been proven wrong. We do hope that with the success of the vaccination drive India too shall bounce back and theatres will be able to quickly resume operations and start attracting good footfalls. We expect gradual revival in the theatrical business, though advertisement revenues may take some more time to recover as media spends will return once cinema occupancy normalizes along with the steady flow of new releases, which should also come back eventually.

I will now quickly take you through the headline numbers for the quarter and the year ended March 31, 2021. Please note that the financial numbers are not comparable to the previous year due to the pandemic-driven lockdown. In Q4FY21, as operations had only resumed partially financial performance continues to remain severely impacted. Advertisement revenues for Q4 was ₹1.9 Crore as compared to ₹30.2 Crore a year ago. Advertisers remained cautious due to the factors like limited content availability, absence of big budget movies and restricted seating capacities. Consolidated Revenues stood at ₹32.7 Crore, lower by 70% Y-o-Y. EBITDA was negative at ₹15.9 Crore and Loss at PAT level was ₹25.5 Crore.

For the financial year, the Consolidated Revenues stood at ₹90.7 Crore. EBITDA stood at negative ₹83.7 Crore and PAT was negative at ₹117.6 Crore.

On Costs front, for Q4FY21, total direct operational costs were ₹18.6 Crore, lower by 55.7%, primarily due to lower advertisement share and lower sales and of digital cinema equipment lamps, spares, etc. Employee Benefits expenses were ₹15.6 Crore lower by ₹3.3 Crore which is 17.3% as compared to previous year and other expenses were lower by ₹6.5 Crore, which is 30.9%. Total expenses for Q4 stood at ₹48.7 Crore lower by 14.6%. For the year ended March 31, 2021 total direct operational costs were ₹76.4 Crore, lower by ₹129.9 Crore i.e. 63%. Employee Benefit expenses at ₹51.8 Crore were lower by ₹33.8 Crore, i.e. 39.4% as compared to the previous year. And other experiences were lower by ₹46.5 Crore i.e. 50.2%. Total expenses for the entire year stood at ₹174.4 Crore which is lower by 54.7%.

As far as the funds position is concerned on a consolidated basis we had a fund balance of ₹79.5 Crore at the year-end as on 31st March 2021 while the net debt stood at ₹14.6 Crore. To buffer up the liquidity position and to meet any unforeseen cash outflow during these testing times the company has also secured an additional long-term working capital term loan of up to ₹22 Crore under the government's emergency credit line guarantee scheme. This loan is in the process of being dispersed.

Lastly, I would also like to take this opportunity to thank all our investors and shareholders for their continued trust in the company during these unforeseen times. We are optimistic that once this situation improves and revenue generation starts and with all the new initiatives, UFO will strongly bounce back.

So, with that I open the floor for questions.

Moderator:

We have a question from Mr. Vaibhav Badjatya from HNI investment.

Vaibhav Badjatya:

Whenever the COVID situation improves, do we see a substantial difference in the number of active screens we had earlier versus the number of screens we anticipate once the situation normalizes as many single and smaller screens might be under financial pressure?

Kapil Agarwal:

In the pre-pandemic scenario, we had around 9,500 screens in the country. We don't have any official data of closure, but we are expecting that few screens will certainly close down as we are seeing that some individual screens are facing the problem. It is very difficult to put that number in the absence of any official data, but our internal estimate is that at least 400-500 screens will be lower. That's our anticipation going by our experience and what we are seeing happening in the market but it's a purely internal estimate.

Vaibhav Badjatya:

Is the government revenue linked to the number of screens or is it a blanket rate that we receive from the government, and is it based on per screen?

- Kapil Agarwal:** Government revenue is based on a rate per show per screen. This is how the rate is given to us for 10 seconds of advertising. So obviously, if there are more number of screens, the advertisement goes to more screens as the number of running shows are more and thus we make more revenue. Definitely, if the screens shut down, there will be a corresponding impact on the revenue as well.
- Vaibhav Badjatya:** What would be the impact on our revenues when larger number of movies get released despite the number of shows being limited once the lockdown is lifted?
- Kapil Agarwal:** There will be a positive impact because this is how our business model works. We charge certain VPF (Virtual Print Fee) in week one and slightly lower in the second week and the third week onwards primarily we don't charge any fees. So, if more new movies release, it means more VPF for UFO. Also, advertisers like to advertise more during new movies than during older movies. Therefore, more movies mean a positive impact on both advertising and VPF revenues. Just to give you some data point, by March a slate of 300 new movies all over the country was already declared. South saw a lot of big movies and small movies releasing, but the Non-South markets were on a wait and watch strategy. Some tent pole movies, for example, Sooryavanshi was slated to release on the 2nd of April, and then it was postponed to around April 26th. But from the beginning of April, all cinemas were shut down and everybody kept waiting for Sooryavanshi, Radhe, 83 to releases. Also, Reliance has very openly declared that they will not go to OTT and will only release it in the theatres. Additionally, there's a huge pent-up demand. In 4 months, when the restrictions on Cinemas were lifted, around 900 movies were released, and going forward there's a huge lineup of 300 plus movies which had already declared their release dates or intention to release.
- Moderator:** We have next question from Urmil Shah from IDBI Capital.
- Urmil Shah:** From a three to five-year perspective, what would be the plan with regards to the movie distribution business? And what will be the capital deployment that we would be looking at in this business, given that the ROCE in this business should be very good?
- Kapil Agarwal:** The Distribution business was the lowest hanging fruit and we had been thinking about getting into this business for a long time. As our business is dependent on the survival of cinemas and we have a lot of multiplex screens but we have a larger number of single screens and the screens are located in the smaller geographies. Whenever the movie is released, the distributors started demanding very unreasonable terms. For any cinema to survive and make money, they need at least 30 to 35 weeks of new content while the rest of the weeks they can manage with content that overflows like good and bigger movies. The smaller screens were not getting that content because the terms which were dictated by the distributors were very unreasonable as they wanted huge advances and they wanted them to run the movie for few weeks, etc. Ultimately, these guys even if they got the movie, they were not able to make money. Our business is dependent on giving more movies to the cinemas so that we make more VPF and newer movies going into cinema means more footfalls, which means we make greater advertising revenue. Secondly, we saw that as a trend, the corporate distributors were disappearing from the country. There were hardly any corporate distributors left and distribution became a very fragmented business. Our thought process was that we are the only company in the country today including all distribution and cross-distribution chain which have offices in every film circuit and are connected with every theatre in the country. We utilized this opportunity and became the corporate distributors. Also, the reason that the corporate distributors is disappearing was that they used to invest in the content. So, we took the in-principle decision that we will only do the fee-based business and we will not get into paying advances or in the business of investing in the content because that can ruin the Company. Thirdly, there was a lot of demand for many years from people that whether cinema movie works or not, UFO still charges VPF. This was a fact and we were willing to go into charging VPF as a percentage of the box office collection, but we did not have any control over the Box Office collection. So, we said that wherever we distribute movies, the box office will be under our control and therefore we can democratically give them to the maximum number of theatres, which we did actually during this period. That was on the cinema side.
- On the producer side, we started charging VPF as a percentage of revenue. It took away their problem because when they had to give per show VPF, they tried to assess that whether the revenue will come or not. They used to restrict the number of screens the movie is going to be released on. When we moved it to a percentage revenue model, then they were completely de-risked and didn't bother on how many theatres we are releasing the movie. So, we started releasing all movies on a wider basis. We started charging them

as a percentage of the box office collection because the wider a movie goes, more cinemas will get the movie thereby resulting in more footfalls and consequently we benefit there. Also, the producer's benefits because the producer never out of pocket on account of VPF, which was their major complaint. We are a corporate distributor and the trust factor of the entire film fraternity in UFO is very high and they all trust our honest declaration of the revenue. As a result, we got a very good response and we released almost one movie every week during those three months when the cinemas were open. We did not hire any people and there is no investment in this business because we don't invest in the content as an in-principal decision. When the movie is ready, it comes to us and we distribute it and take it to all the circuits. We even started distributing Hindi movies in the Southern market. The Hindi dubbed version of the Southern movie Master was distributed by us in the Hindi market. Normally, Tamil movies don't come to the Hindi market except for a Rajnikanth movie or one or two others. So, we try to take the reach of the movie very wide without investing in the business and create a win-win situation for us and for the theatres because they get the content and for the producers. Our people from all our 24 offices across the country are in touch with all the producers and are very well connected with the entire fraternity. So, it was a plug and play for us and we saw great success. And as I mentioned, we started this with smaller movies and were negotiating with bigger movies but then the second wave hit the country. So, we are here to stay and this will be a meaningful business for UFO.

Urmil Shah: With a focus on fee-based business, would it be safe to assume that we would be looking largely at the theatrical distribution because for digital television kind of distribution, you will need to invest in the content as the fee-based model, for now, does not exist there?

Kapil Agarwal: Theatrical stream is our main focus. Now as a byproduct of that, when you approach an OTT platform post the theatrical run, they are tired of negotiating with the individual producers. They want to talk to people who can provide them with a substantial amount of content or multiple movies. Since we can provide this to them, we have started talking to OTT platforms. As a corporate theatrical distributor, we now plan to take the movies, create a slate and then approach OTT platforms so that they buy these movies and we make a fee on the sale to the OTT platform and satellite platform. So, we have also started the discussion with the satellite channels for the post-theatrical sale of movies. I think, eventually that will also become another fee-based revenue for us.

Urmil Shah: What kind of capital outlay is planned over the next three to five years on the new initiatives? Also, Nova Cinemas and other businesses which were small in the Pre-COVID era, how are we looking at it in the current situation?

Kapil Agarwal: All the new initiatives like the social media platform and influencer marketing are being taken care of by our existing team. We have re-skilled our advertising team and the team is very excited because there is a huge potential. So, the same advertising team, which was selling the in-cinema advertising is also now going to be bundling this product as well as going to the newer clients because we already had a base of 2,000 odd clients all over the country. So, there is no investment in that. Other initiatives like Zinglin and Plexigo have been created internally with minimum investment. Since we are a technology company, most of the software's have been developed internally with minimum investment. Coming to Nova, that business is completely halted and we are currently not making any investment in that because right now our focus is to cross the finish line. Our cash position despite having been under lockdown for almost 9 months earlier and then again for two months now, still carry healthy cash and we have been able to manage it by cutting costs, arranging cash and realizing our working capital. So, presently our focus is on conserving cash and re-establishing the business and then investing in new projects. So, NOVA Cinemas is completely on halt except for the ongoing projects with ₹5-10 lakh investment if required, but no major investment is going into those products.

Urmil Shah: Are we re-looking at Caravan business in the current situation?

Kapil Agarwal: We don't have any further investments lined-up for the Caravan business. We already have around 112 vans and because the country was shut, those vans are currently parked and we cannot utilize them. We are talking to the Governments that if we can use these vans for vaccinations. Given the right circumstances, this business has potential and we are already in touch with various players and retailers for deploying these vans once the restrictions are lifted.

- Moderator:** We have a question from Mr. Shiv Prasad an Individual Investor.
- Shiv Prasad:** From your initial brief, the single screens business might get affected by a few percent but what about the multiplexes? Secondly, since, VPF revenue is dependent on per show per screen and not on the footfalls, do you also get benefited when a movie turns out to be a blockbuster, or do you have any share in margins of such movies? Thirdly, want to understand a bit more about Collective platform and what is the correlation with the star names you mentioned?
- Kapil Agarwal:** First of all, thank you very much for appreciating that we have not laid off employees. Our senior management has taken a huge cut and we made sure that the lower cadre works with minimum cuts. So, the cut in the case of lower cadre was as low as 10%. While at the highest level, even today, Mr. Gaikwad our Managing Director, and myself, are not taking any salaries. We are at 100% cut because we can sustain ourselves, but our salaries can pay dozens of people. The senior management took almost 40-60% cut voluntarily. So, that was a very good gesture and hardly anybody has thought of leaving the Company. Although it was not your question, since you mentioned it, I thought it will give me a good feeling to mention it.
- As far as the single screens or multiplexes are concerned, when we said that we will be lower by 400-500 screens and I was not distinguishing between them. I was saying as per our internal estimates, 400-500 screens to shut down and this included even the smaller multiplexes. There are larger chains like PVR, Inox, Cinepolis, then there are mid-level chains with 40-60 screens and then there are very small multiplexes which are individual standalone multiplexes with 3 screens at one or two locations. While some stress may be there on the lower screens, in the middle segment, there could be consolidation with the bigger chains buying them out if they can't sustain themselves. Although, as per my interactions with them, nobody wants to sell out. Everybody is very confident about the future of the cinema business and everybody has cut down costs like us and keeping their head above the water. So, only some screens will shut down that also maybe 5-6% of the overall screens.
- As far as blockbuster movies are concerned, we have a beautiful business model and the way it works is that we charge on a pay-per-show basis. We charge a certain amount in the first week, a lower amount in the second week, and third week onwards we don't charge. Now, by implication, if there is a blockbuster movie that is going for six or eight weeks, we are not making any revenue after two weeks. But, as part of our business model we wish movies to go to third, fourth, fifth week and become a blockbuster because we can make more advertising revenue. A movie will become a blockbuster only when it gets higher footfalls. In such movies, although we do not charge the virtual print fee from week 3, we make more money on the advertising revenue. There is a natural hedge in our business model. If the movie doesn't work, or even if the movie goes out early, they pay us a fixed first show price and if the movie doesn't go out and proves to be a blockbuster movie, we generate higher advertising revenue.
- Coming to your third point of Collective, it is a talent management company and is an exclusive talent manager to approximately 270 stars and performers from the industry. Whenever these stars have to do anything, whether they have to sign a film, appear in a show, do an endorsement, or whether they have to post something on their social media, everything has to go through Collective and it makes a commission on that. Given the growth of social media influencer business in the country, they have added 5,000 plus influencers over the last 1-1.5 year. It's a great company in talent management. They also sell, but we only sell advertising. We have a pan India team of experts who have been selling advertising and are very well connected with 2,000 plus clients. Collective has the talent and the influencers, and for all the social media marketing, the posts based influencer marketing, they have signed an exclusive agreement with them that where they were servicing certain clients, those clients will remain with them while the rest will go through us and then we will be doing the social media marketing, which means we will go to the advertisers. Whenever the advertiser has to sell a product, they want a set of social media influencers to talk about their product. Suppose you are launching a health product, you want the influencers who are from the nutrition industry, the nutritionists, the bodybuilders, etc. to talk about the product on their social media. This is a growing business and we have signed an agreement with Collective where we will be selling the social media of these celebrities, as well as these 5,000 plus influencers. The awakening in our mind was during the pandemic as the cinema business shut down and we came to the ground completely and we said we should also ring-fence ourselves and get into the digital business and the social media business. This is where all the initiatives we took are and this is the kind of an agreement that every time you sell something,

you make money on that. It is a pure fee-based business. We are not investing anything in it. We do not have any fixed costs because our existing people are going to do it. And tomorrow, if this business grows and becomes big and we have to hire more people, we will hire.

Moderator: We have a question from Sharaj Singh from Singh and Company.

Sharaj Singh: In the Collective business, essentially we will be sourcing the advertisement for their Collective clients and how will we own these advertisements? Will we be selling these advertisements and making a cut in the middle or how does it work?

Sharaj Singh: It is a very transparent business. As per the agreement between Collective and the social media influencers, every time an advertisement is sold, whatever is the revenue they get a percentage and that percentage is going to be shared with us. Although, we also have the opportunity to top up that pricing and as per the agreement we can charge more but it's a very competitive business. So, ultimately we will be making a commission on every advertisement.

Sharaj Singh: I assume, these advertisements will be sold to the various social media platforms and the television channels?

Kapil Agarwal: No, these are the advertisers of any product company or any service company, like we sell the advertisement for in-cinema for any consumable product, consumer goods, any clothing products, etc. All kinds of advertisers will be our clients, for example, like a Unilever, Coke, Pepsi, etc. who advertise in the cinemas, TV, on social media, digital platforms, etc. We will be selling it to them and within UFO itself we already have touch points with over 2,000 clients who we have been selling the in-cinema advertising anyways.

Moderator: We have a next question from Mr. Manish Manchanda an Individual Investor.

Manish Manchanda: As per your past interviews you have said that we have done investments worth ₹200-300 Crore in equipment and we have mounted all the equipment on the screens and against that we charge VPF from them. So, is it that the national chains have stopped using our equipment or have they installed their equipment? Secondly, cities like Meerut, Muzaffarnagar, Bareilly, etc. where there are single screens and there is no PVR, etc. how do they operate during this time, if you have any information about it? If this crisis runs for a longer period or extends to another year will it affect our survival and do we have any back-up plan? What is our cash position in the books?

Kapil Agarwal: Thank you for complementing. We are a company with a heart, so we always take care of our people and I am very proud to say that those who have joined us back in 2005-2007 are still with us. We have people from 15 years with us.

Firstly, from the beginning, we have invested about ₹600-700 Crore in the equipment. What happens is that we install the equipment in the theatres and we maintain them too. Buying an equipment is one thing as it is just a one-time cost so anyone can buy an equipment. But like electronic, it needs daily maintenance and on yearly basis. Suppose if the show is running and the equipment goes down, people might create ruckus in the theatres. On the other hand, if they have an equipment and it needs to be repaired and if it takes 3-4 days due to which the show could not run then they will lose out on the revenue for those days. So, we invest in the equipment and with the help of our 300+ engineers on pan-India level, we maintain everything. We keep an inventory of ₹100 Crore of equipment pan-India. Whenever there is an issue, we either change or repair the equipment. An important point is that, we get 3 revenue stream against this. When we install the equipment in theatres, we take rent from the theatres for the equipment so we get lease rent. Secondly, we take VPF from producers, because producers do not have to invest on the reel and his film is played virtually so we charge on a per show basis and there are different models for different markets. Third, because we have given and installed the equipment and we do the maintenance, in lieu of this, theatre cannot sell advertisements. We have 3,700 plus aggregated inventories of all these theaters and after aggregating we sell them nationally and we give them a revenue share. Because of this equipment that have been deployed, we get these revenues and also these are the 3 major revenue streams for us. As far as the national chains are concerned, let me tell you that we had invested in at least 400 PVR screens but there we do not get advertisement rights. Our major business is beyond the national chain. With national chains, wherever our equipment is deployed, we have many agreements and we collect revenue in different forms.

You rightly mentioned Carnival, 60-70% of the equipment in Carnival is owned by us. Your third question about villages, let me first tell you that none of the villages in India have cinema, all the cinema are in cities. No village in India and the names which you took like Muzaffarnagar, Bareilly, etc., all these are cities. On Vaccine awareness, whatever happens in India will affect all the businesses but the Government is also trying that by end of this year maximum vaccination is done. Government has also said that 200-225 crore doses would be available between July and December. So obviously vaccination would be done but the cinema business is mainly a city centric business and not a village centric business. In villages, we usually run another type that is Caravan Talkies. Last question about the cash flow, for the last 14 months, we were closed and in between it was open for few months but there was minimum revenue during that time as there were no big movie released. Despite that, we have survived 14 months with all the people and we have enough cash. Going forward, I am not saying that if it is closed for 2 years, but for a reasonable period if the third wave hits, we have sufficient cash available and if we need more cash, we will minimize the spend. If we do not survive this, then who will? So, we are surviving this and surviving pretty well, management is proactive and our employees are quite supportive. So, by reducing the spends, raising money, etc. every way we are trying and our cash flow position this March 31st was ₹79.5 Crore. Loan of ₹22 Crore has already been sanctioned under export credit guarantee scheme by the Government. So, we have enough cash flow going forward and we are managing it very efficiently.

Manish Manchanda: Can you elaborate on the other business models that you mentioned you have with the national chains through which you earn revenue?

Kapil Agarwal: Our business with the national chain is in such a way that for example with PVR we have done an investment of at least ₹80 to ₹100 Crore in equipment, in lieu of which we earned VPF and rentals. Secondly, we provide VPF collection service to these chains and we also provide content providing services for which we charge them. We take a percentage of VPF collection. Our attempt is to provide every cinema with whatever they need and have kept ourselves so flexible that we are able to provide service to everyone and we also earn from that. We want to earn in every deal and our Company is healthy cash flow wise because we have worked hard to provide service to everyone as per their needs and earn accordingly without spending extra money and only by leveraging our existing infrastructure.

Manish Manchanda: We were about to have a merger with Qube Cinema which was first dismissed and then we appealed and got the permission. If that merger had happened, a monopoly situation would have been created for us pan India. So, is the company thinking about this or that deal is completely off the table?

Kapil Agarwal: It was dismissed first, and later we won the case in NCLAT but after that we decided not to pursue that merger. Whether the monopoly would have been created or not is a very hypothetical question. As of now, we do not have any thoughts about the merger of these two companies because our stock price was different then and is different now. That merger discussion was related to the stock price and now if all the investors are confident and the stock prices also improves then we might think about it again tomorrow. But today it is a very hypothetical question to which I do not have an answer.

Moderator: We have our next question from Mr. Mannan Patel an Individual Investor.

Mannan Patel: What is your perspective on this industry over the next five years and in the shorter term. And, how long can it take us to get back to ₹500 to 600 crore revenue. And in the long run of five years, how do you see UFO Moviez panning out?

Kapil Agarwal: From the time of IPO, despite all of our efforts, there had been a lot of external events which have affected the cinema business and advertising business, for example, the de-monetization. After de-monetization, there was a sudden drop in our advertising business, then GST was implemented which further affected for next couple of years and now this pandemic. So, there is some or other external macro events happening which have in some way or the other affected us although the plans were very different. Secondly, as I said in the opening remarks, I do not doubt that in the next 5 years, the future of the cinema industry is very bright. When TV was launched, people said that the cinema industry will shut down, OTT came people said the same, DVD player too but the cinema industry is growing worldwide. Today, I had mentioned in the opening remarks that recently a movie was released in England and it earned 7 million pounds over the first weekend. In China one movie earned a revenue of US\$135 million. So, there is absolutely no doubt about the future of the industry. Thirdly, I would like to address one point here which no one has asked and

every time there is an overhang of this above our heads and I am listening to this for the last 10 years and many analysts have come and written that this Company's VPF will end which is a ₹125-150 Crore revenue stream. I always ask analysts one question for which I have not got any answer, If I am outside an airport with a car and a passenger wants to go to the Oberoi hotel in Nariman point in my car, either the hotel pays for that client or the passenger pays. The car is mine, I have paid for the fuel, driver, maintenance and I pay the installment, so no one can snatch the key and drive my car right? This is being predicted for the last 10 years that VPF will end and this company will close. So, I have not understood this yet, on what basis have these analysts predicted. According to me, the existing business is a strong business, we have invested ₹600-800 Crore in the equipment and the infrastructure belongs to us and we have the ability to maintain the equipment. Individual theatres cannot maintain the equipment, they cannot replace the equipment, we have the financial ability to replace the equipment while they do not. Because of the equipment they earn advertising revenue which we monetize for them because we have collected the advertisement inventory of 3,500+ theatres which we sell. Why would big companies go to a small city theatre and make an agreement and give an advertisement to them? So, this is an ingenious business plan. This business plan does not have any threat. And along with this, the other businesses which we have started like the fee-based distribution business should give us steady revenue and the bottom line eventually, and likewise, we have made the agreement with Collective for social media marketing which should also eventually establish. Your last question about the ₹600 Crore revenue, I don't think I have any authority to predict the future but all I can say is whenever cinemas open, people will come whenever a good movie releases and business will come back. All these depend on the pandemic situation. Once the second wave ends and the cinemas open in the next 2-3 months, 300-400 movies are lined up to be released, so cinema business will come back. Then it is just a matter of time whether it goes to a 5-year level. All of these are planned in our view and we are very confident about the new businesses. It is difficult for me to say when will we earn profits as that only depends on the pandemic. In March, we were very happy because business was coming back and then suddenly in April the situation changed that is more a macro question. So, we will wait and watch.

- Mannan Patel:** What is the maintenance cost per annum of the entire infrastructure that you have set up as in to maintain that entire infrastructure including some replacements. So annually what would be the cost?
- Kapil Agarwal:** The two cost elements are, one is the operating costs and the other is the replacement cost. Operating costs is the cost of engineers, cost of spares etc., which is part our balance sheet. The investment cycle got over many years back and if you would study our balance sheet, our CAPEX has been very steady in last three to four years at ₹40-50 Crore per year. That is during the steady state, i.e. when all the cinemas are running smoothly and we earn a ₹150-175 Crore EBITDA every year which you can see in our older financial statements. That EBITDA comes after deducting all the spending including maintenance. This year, there was hardly any CAPEX because cinemas were not operating.
- Moderator:** I now hand over the call to Mr. Yogesh Kirve for closing comments.
- Yogesh Kirve:** We would like to thank the management of UFO Moviez for giving us the opportunity to host this call. And we would like to thank all the participants for taking out time for the call. We wish you all the very best. Thank you.
- Kapil Agarwal:** Thank you, everybody.
- Moderator:** Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using ijunxion conference service. You may please disconnect your lines now. Thank you and have a great day.

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