UFO Moviez India Limited
Q4&FY22 Earnings Conference Call

May 27, 2022

MANAGEMENT:

MR. KAPIL AGARWAL - JOINT MANAGING DIRECTOR, UFO MOVIEZ INDIA LIMITED

MR. RAJESH MISHRA – PRESIDENT AND GROUP CEO, UFO MOVIES INDIA LIMITED

MR. ASHISH MALUSHTE - CHIEF FINANCIAL OFFICER, UFO MOVIEZ INDIA LIMITED

ANALYST:

Ms. SHWETA SHEKHAWAT – PRABHUDAS LILLADHER

Moderator: Ladies and gentlemen, good day, and welcome to the UFO Moviez India limited Q4&FY22 earnings conference call hosted by Prabhudas Lilladher. 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shweta Shekhawat from Prabhudas Lilladher. Thank you and over to you, Mam.

Shweta Shekhawat: Thanks Rutuja. On behalf of Prabhudas Lilladher, I welcome you all to the Q4&FY22 earnings call of UFO Moviez India Limited. We have with us the management represented by Mr. Kapil Agarwal, Joint Managing Director of the company, Mr. Rajesh Mishra, President and Group CEO of the company, and Mr. Ashish Malushte, the CFO of the company. I would now like to hand over the call to the management for opening remarks after which we can open the floor for Q&A. Thank you and over to you Sir.

Kapil Agarwal: Thank you Shweta and greetings everyone and thank you all for joining our Q4&FY22 earnings call.

Let me start with the updates and highlights for this quarter. Q4FY22 was expected to start on a positive note because of the overwhelming response to movies that were released in November and December 2021, respectively. However, during the last week of December, the third wave of COVID-19 had started to spread across the country. As an impact of the surge in cases and ensuing restrictions, some states ordered the temporary closure of cinemas in January'22 while many other states reinforced occupancy restrictions. Due to this, big movies that were supposed to release in January were deferred to a later date and only some movies from the regional film industries were released. However, the impact of the third wave was short-lived and cinemas that closed during this period started to reopen in February. Even though the cinemas across India were operational in February, there were not many releases during this month except for some movies like Badhai Do, Gangubai Kathiawadi, etc. The actual flow of new releases began in March and many mega-hit movies like The Kashmir Files, Radhe Shyam, RRR, etc. were released and were successful in attracting audiences back to the cinemas. This is encouraging for the business, as it will encourage advertisers to increase their advertising budget allocation towards in-cinema advertising. In addition, the removal of occupancy restrictions in the first week of March'22 gave a head start to the recovery process and lead to a bounce-back in our CDC/VPF revenues during the month.

The decision to remove the occupancy restrictions by State Governments was a welcoming decision for which the industry had been waiting for since the beginning of the pandemic. This should fast pace the recovery going forward.

Another positive development that I would like to highlight is that the acceptance of select South movies in the northern circuit has led to more movies from South releasing in the northern circuit, which is encouraging for our business. This is because earlier most South movies were only released in the southern region and we earned CDC revenue from there. Now as more of these movies will be released in the northern circuit, it will offer potential benefit to our CDC revenues. We have been supporting the wider release of south and other regional movies through our distribution business in the northern circuit.

Going forward, we expect a steady revival in business as our CDC revenues have already seen a bounce back supported by the steady release of big films. Advertisement revenue has also started, however, is expected to grow gradually. We believe FY23 to be a year of substantial recovery for the business subject to no further pandemic-induced restrictions.

Now coming to the headline numbers for the quarter and full year ended March 31, 2022.

Consolidated revenue stood at ₹561 million in Q4FY22 as compared to ₹335 million in Q4FY21. EBITDA loss in Q4FY22 was ₹119 million as compared with an EBITDA loss of ₹159 million in Q4FY21. Loss at PAT level was at ₹189 million as compared to a loss of ₹255 million in Q4FY21.

For the full year FY22, the consolidated revenue stood at ₹1,639 million as compared to ₹922 million in FY21. EBITDA loss reduced to ₹472 million as compared to ₹837 million in FY21. Loss at PAT level stood at ₹869 million as compared to a loss of ₹1,176 million in FY21.

The consolidated funds position of the Company as of March 2022 stood at ₹1,190 million. On the debt front, the Company is net debt free with net cash of ₹320 million.

Lastly, I would like to inform you all that as I turn 62 later this year, I have decided to step down from active management of the Company. However, I will continue to serve the Company as a Non-Executive Director. Mr. Rajesh Mishra, presently President and Group CEO of the Company, will take over my role and is being elevated to the position of Executive Director. He has been associated with the Company since inception and is currently responsible for overall operations of the Company. I wish him the very best for future.

I would like to take this opportunity to thank all our stakeholders for their continued trust in the Company during these unforeseen times.

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

Moderator: The first question is from the line of Niteen Dharmawat from Aurum Capital.

Niteen Dharmawat: The employee benefit expenses have gone up substantially. Is this going to be the trend in the subsequent quarters as well or is it just one-off increase during this quarter?

Ashish Malushte: The increase in Q4FY22 expenses over Q3FY22 is because of the increase in the employee compensation expenses that has gone up by ₹8.87 crore quarter-on-quarter. I would like to inform you that the employees had been on salary cuts all through the two years of the pandemic. It was only when the theatrical business started opening up towards the end of December'21 before Omicron, we decided to reinstate the salary cuts. As a result, out of this ₹ 8.87 crore of increase, ₹4.03 crore is completely towards salary reinstatement. Additionally, for two years there was no salary hike and yet the employees stayed with the company for a long time. However, lately, some of the talents slowly started leaving, it was necessary to retain them, and as a result, the salary increments were rolled out in December'21. The impact of this was close to ₹2.34 crore. The combined impact of salary reinstatement and salary hike was ₹6.37 crore out of ₹8.87 crore and remaining was annual incentives, which is more like a one-time cost. Q4FY22 salary expense will more or less be the same going forward except for ~₹1.50 crore that is like a one-time expense. Rest you can assume that as a base for extrapolating our salary cost for next year.

Niteen Dharmawat: Considering the business situation in Q1FY23, would it be fair to say that the Company will turn EBITDA positive during this quarter?

Ashish Malushte: This quarter certainly will be a challenge because we are still slowly getting out of the COVID-related problem. However, the film industry has come back with a big bang and that is a big positive for us. Never in the past, we have seen that consistently for four months there had been back-to-back releases that were backed by audiences and the box office collection was going up significantly for almost every movie. Earlier, only a few such hits used to be there annually but currently in three months, you had 4 to 5 hits back-to-back. It is positive for the film exhibition industry but for the service providers like UFO, to get the benefit it will still have some lag. As we progress, our losses should start reducing, and then we will turn EBITDA positive where a significant contribution needs to come from advertisement revenue. Our advertisement revenue is slowly coming back on track, but it will be some time before we could actually reach a stage of pre-COVID level or even a level where the EBITDA will turn positive. At present, we do not want to give an estimate but we are keeping all eyes on the consistency in the release of the movies and acceptance of these movies by audiences. If these two things happen, the return of audiences to the theaters will give the confidence to advertisers to look at the medium more positively. Once this happens, the Company will reach an EBITDA positive level quickly, but we do not want to give any timing estimate for that.

Niteen Dharmawat: Most of the industries that were impacted by the pandemic have started to reach pre-covid levels of the topline. When do you estimate that we will be able to reach our pre-COVID topline? Also, since we have started some new businesses like the distribution business which now would have picked up, when do you think this could happen.

Rajesh Mishra: Our revenues comprises of advertisement revenue and theatrical revenues i.e. rental, CDC, and others. The release of films and steady flow of content into the cinemas has steadily increased and there is a very good lineup going forward. Additionally, South films have also started performing well in the North circuit (Hindi speaking markets), which has led to an increase in the number of small and big films that will release in the North. As a result, CDC and rental revenue will quickly come back to normal and is well on track to recovery. Advertising revenue will take some time, especially the government advertising, which still has to see some uptake, whereas corporate advertising has started to see good traction. On the government front, we have some concerns and that is where we are working.

Moderator: The next question is from the line of Akshay Ajmera from Nirzar Securities.

Akshay Ajmera: My question was regarding advertisement revenue. As given in the presentation, inventory utilization is 0.94 sec. This less than one minute/average minutes sold?

Ashish Malushte: It is the average minutes sold per show. It means that average advertisement inventory utilization on our network was less than a minute per show during the pandemic. It shows the upside that is possible. If you go and watch a movie in a premium Multiplex, in a good festive season the advertisement can go as high as 20 to 25 minutes including advertisements played during the intermission and at the beginning of the show. The point you are referring to from the presentation shows where exactly we stand on our network and the opportunity that exists on the volume front. It's an indication of what kind of upside exists in the volume.

Akshay Ajmera: The advertising sharing with exhibitors as a percentage is higher than in the earlier years. Is there some renegotiation with our exhibitors in the sharing?

Ashish Malushte: We have a minimum guaranteed arrangement with the theaters. We charge a fixed rental fee to the theatres and against that rental fee we take the advertisement right from them. In a normal scenario, advertisement revenue that we earn is to be shared on a percentage basis with them. However, we also have a clause right from the beginning where we commit a minimum guaranteed sum to them, which is generally equal to the rental amount. Rental is revenue and our minimum guarantee is a cost that gets nearly set off against each other. The minimum guarantee cost when you compare it with the advertising revenue in a pre-COVID scenario, the percentage was quite low. In the current scenario when the revenues are lower, the percentage will be more because of the minimum guaranteed arrangements. However, there are no major deals where we have renegotiated except for some. Primarily, the percentage is high because the revenue is low currently.

Akshay Ajmera: We have given some discounts on the Virtual Print Fee during the pandemic. Are we now back to full pricing?

Rajesh Mishra: During the pandemic to encourage the opening of cinemas and for the films to release, we had extended discounts in the initial period. In addition, one of the reason was cinemas in many states were shut, and even where the cinemas had opened they were operating with capacity restrictions. In order to support the industry during those times, we had extended these discounts. However, we are glad to inform you that all the discounts have been removed.

Akshay Ajmera: Can you share some outlook on the distribution business?

Rajesh Mishra: We started the distribution business during the pandemic period. The primary need that we felt over here was to help cinemas open and someone had to take the lead to ensure that some content flows. We saw this as an opportunity and got into the distribution business. The way we have structured it and the mandate that we have with the team is that it is a zero-risk low profit strategy business. It serves the dual aim of providing content to the cinemas and once the cinemas get content, it provides traction to the advertising business. Primarily, we have worked with South Indian films and have helped them to release movies in the Hindi speaking markets. One of the offshoots of this is that more South Indian films are seeing traction in the North market. This will help us in the long run because if the number of films released in the north market increases, it will directly have positive impact on our CDC and advertising revenue in the future. To date, we have released around 35 films in various languages.

Akshay Ajmera: What would be the revenue from this?

Rajesh Mishra: The revenue is low because a lot of them were released during the pandemic period but we have not incurred any losses. The revenue on that is around ₹63 lakh in Q4FY22.

Akshay Ajmera: Could you give us some updates on the new ventures? Also, we have invested in a few companies picking up small stakes. Some updates on that as well.

Rajesh Mishra: Any particular ones you would want to mention.

Akshay Ajmera: We have picked a stake in a production company where we are a Co-producer of some regional films. We also have a stake in an online library of information, and have some initiatives where we have a social media agency.

Rajesh Mishra: We had invested in Mumbai Movie Studios Private Limited (MMSPL). The company primarily targets low-budget films from the regional market and is designed to get into the production of these films along with the producers on the co-production model. All the films that are looked at already have the producers and the Company only invests a part into it and takes a position. The typical way the deals that are worked out in this is the flow of regional content pan-India. To give you a perspective, Hindi films are big-budget films. They carry a much higher risk and even one film failure of say ₹100 crore can have a very drastic impact on the Company. Here, we took a position over small budget films between ₹2 crore to ₹4 crors. We have released three films under this category as of now under MMSPL and have had a good experience. We've not lost money on any of these projects.

Ashish Malushte: This Company is promoted by the professionals in this field and therefore we decided to back them. It is operated independently of UFO. For us, the major synergetic advantage was the focus they have on giving impetus to the regional films of a lower budget. If we see that kind of genre and category picking up in terms of the production number, it directly helps us because any increase in the number of films would be better for VPF or CDC revenue and more importantly lead to higher occupancy in the theater directly affecting our advertisement revenue positively. Therefore, we are looking at how many more movies they can make and whether they can give that kind of rub-off effect to other producers to create more movies, and simultaneously whatever profit is generated, a part of it flows to us. Whatever movies they have made so far, have made a reasonable profit and have not lost money so far.

Akshay Ajmera: Other expenses have increased substantially in this quarter. Are there any one-offs like salaries in the other expenses as well?

Ashish Malushte: If you refer to slide 11 of the earnings presentation, there is a note that highlights the provisioning done during the quarter for the diminution in the value of one of the investments. That is the one-time impact of ₹4.1 crore. When you are looking at the EBITDA, the one-time impact of ₹4.1 crore should not be considered for the evaluation of the Company's performance for Q4FY22 and the full year FY22.

Akshay Ajmera: What is this regarding?

Ashish Malushte: This is related to one of the investments that were done before the pandemic. We thought that it had and still believe has a synergetic value to our business. Unfortunately, during the pandemic, the whole film industry came to a grinding halt and no revenue was generated. Now what happens is while on a business front you will always have a view and can see in a way where the business is leading. However, from the accounting perspective the norms do not allow you to carry the cost of the investment unless your current performance or past performance is justifying it, and because of which these provisions in the value are required to be taken. Currently, it is the provision and not a direct cost of diminution in the value. Hopefully, now when the business is coming back on track for the entire film industry and when this company also turns around we will be able to reverse this impact. However, if it does not go in that direction, then probably this will be a permanent hit to us.

Akshay Ajmera: Is there any other reason? The other expenses have also gone up substantially.

Ashish Malushte: To give you a more realistic way of looking at other expenses that you can generally refer to as SG&A expenses. Full-year SG&A expenses are about ₹48 crore and for the quarter it is ₹20 crore. From this ₹20 crore, if you remove ₹4.1 crore of provisioning and two other items which are more like direct expenses, you come to a level of ₹14 crore. This translates into an annualized cost of ₹57 crore of SG&A. The pre-pandemic level of SG&A was in the range of ₹80 crore in FY19 and ₹77 crore in FY20. During the pandemic, we had undertaken several cost optimization measures, which lead to SG&A expenses in the pandemic coming down in the range of ₹42 to ₹44 crore from a level of ₹78 to ₹80 crore. However, from Q4FY22 onwards the business is coming back on track and most of these expenses are coming back, which were their pre-pandemic. However, we are still able to reduce these expenses in many places and because of which Q4FY22 annualized is ₹57 crore against ₹80 crore of pre-pandemic level. We're expecting that as we progress and the business comes back completely, other expenses from this ₹57 crore annualized level will move up by about say 15%-20% as we close the year, but still will be lower than the FY20 level. That is where we have got the cost reductions or cost optimization.

Akshay Ajmera: Are we comfortable with the funds that we have raised or we may need to raise more funds in the future?

Ashish Malushte: Yes, the fund position is comfortable. Fortunately, we can safely say that the pandemic has come to an end and Omicron was also a one-month phenomenon. The whole world is going north in terms of revival and the same should hold for us.

Moderator: The next question is from the line of Akhil Hazari from Robo Capital.

Akhil Hazari: When would you reach ₹200 crore of advertisement business? Would it be in FY24?

Ashish Malushte: Hopefully soon, but at present, we are not even three months into a full-fledged operation. Advertisers have started coming back and we hope that it will be fast-paced from here. In one of the previous questions, we highlighted that the volume headroom is very high. At present, to give any estimate on timing is not possible and even not fair to ask the advertisement team to say when we will reach that level. We should only see how the incremental progress is and in the last three months, it has been quite positive. We will keep connecting over these calls and updating you all on the performance.

Akhil Hazari: What is the operating cash flow for this quarter and the outlook for FY23?

Ashish Malushte: We will not be able to give an operating cash flow outlook for FY23 at present. Any outlook will mean that we will be giving an outlook on the business, which we normally as a policy do not give. However, we give a very clear indication of how the business is heading on a short-run and long-run basis. I can surely share with you through my IR team the current level of operating cash flows if we may connect with you offline.

Moderator: The next question is from the line of Kaustav Bubna from VMSPL capital.

Kaustav Bubna: What was your VPF revenue contribution in terms of percentage pre-pandemic and if you could give us an update on the latest stance by producers on paying VPF at current rates.

Ashish Malushte: VPF is a content delivery charge, which we charge to the distributors for providing the service of taking their movies into various theaters in a secured way and getting it played. Generally, we charge VPF/CDC on a per-show basis. Your question was on the margin. My request is whenever you get a chance refer our Q4FY20 presentation. As you may not have it handy now, I will tell you which slide to refer.

Kaustav Bubna: No, no, I was asking how much is VPF sales as a percentage of total sales.

Ashish Malushte: Ok. In FY20, what we call a distributor revenue was 31% out of the total operating revenue. The remaining two were exhibitor revenue and advertisement revenue. Currently, that proportion will be slightly higher. As of FY22, the distributor share is 33%.

Kaustav Bubna: At some point there was some sort of agitation from the producers on the VPF fees and their intention of paying were not to the extent of the fees charged. What is the latest update on this?

Rajesh Mishra: I would not say agitation. What had happened during the lockdown was, that cinemas were shut in many states, and wherever they had opened, they were operating with occupancy restrictions, which affected their revenues. So there were requests and we had also proactively given discounts on VPF/CDC so that the films could start releasing in cinemas. Ultimately, the goal was that the cinemas open up and the release of films increases. To encourage this we had given discounts. However, as I mentioned earlier we have stopped all discounts and we are currently charging full rates.

Kaustav Bubna: Just to confirm this was not an agitation on their side, it was a COVID issue, which caused this.

Rajesh Mishra: That's right.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Shweta Shekhawat for her closing comments.

Shweta Shekhawat: Thank you. On behalf of Prabhudas Lilladher, we would like to thank the management of UFO Moviez and the participants. Good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of UFO Moviez India Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines.

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