



UFO Moviez India Limited
Q2&H1FY22 Earnings Conference Call

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MANAGEMENT:

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ANALYST:

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- Moderator:** Good day, ladies and gentlemen, welcome to the UFO Moviez India Limited Q2&H1FY22 earnings conference call. 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 Mr. Vikram Ramalingam. Thank you and over to you, Sir!
- Vikram Ramalingam:** Thanks Lizaan. Good afternoon ladies and gentlemen and thank you for joining us today. Maybank Kim Eng is pleased to host the earnings call for UFO Moviez to discuss the Q2&H1FY22 results. From the management side, we have Mr. Kapil Agarwal, the Joint Managing Director of the company and Mr. Ashish Malushte, the CFO of the company. Over to you Mr. Agarwal to present your opening remarks after which we will have the Q&A session. Thank you.
- Kapil Agarwal:** Thank you so much Vikram and greetings everyone and thank you all for joining our Q2&H1FY22 earnings call.
- I hope that all of you had a great Diwali holiday and got the opportunity to visit cinemas.
- Let me start with the highlights of this quarter. With a steady decline in the COVID cases and progress made on the vaccination front, the State Governments started permitting cinemas to reopen from around mid-July one by one but with the restrictions on the seating capacity and Standard Operating Procedures (SOPs). However, Maharashtra a major market for Hindi movies that contributes around 25% to 30% of the all India revenue for any Hindi movie and without which Hindi movies generally do not release, continued to remain closed. As a result, no big-budget Hindi movie was released except for one or two movies like Bellbottom. Since the Hindi movies did not release, the regional movies started getting their fair share of revenues. In North India - Gujarati movies, Punjabi movies, and Bengali movies etc., all these movies did good business so some revenues started for us and it also contributed to the growth of these regional cinemas. The other major market which continued to remain closed was Kerala which was seeing a huge incidence of COVID cases.
- Movie theatres in the Hindi movie circuits started opening once the government of Maharashtra declared the theaters to be reopened from October 22, 2021, and at the same time, the Kerala government also allowed the theaters to open from October 25, 2021.
- The situation in the last three weeks has changed considerably and the majority of the cinemas across the Country have re-opened. Restrictions on seating capacity are also being lifted and States like Telangana, Andhra Pradesh, Rajasthan, Karnataka, Gujarat, Delhi, Uttar Pradesh, Tamil Nadu, and Odisha have allowed cinemas to operate at 100% occupancy. The other States continue to allow cinemas to operate with 50% to 70% occupancy.
- The opening up of the theaters in Maharashtra was welcomed with the announcement of release dates of big-budget Hindi movies. Reliance Entertainment which was holding the blockbuster ‘Sooryavanshi’ that was supposed to release exactly one or two days before the country went into lockdown in March 2020, waited for more than one and a half years before releasing in Diwali 2021. Another movie called ‘83’ is scheduled to release on Christmas. Following this, Yash Raj Studios immediately declared the release dates of four movies produced under its banner. As the producers saw that the important or festive dates were getting booked, they started announcing their movies release dates, and now for the next six months, every weekend is booked.
- Post opening of Maharashtra, ‘Sooryavanshi’ released on November 05, and the much-awaited Rajnikanth movie ‘Annaatthe’, which was distributed by UFO on an all-India basis (except Southern States), got released on November 4, 2021. Despite the occupancy restrictions, both the movies had a blockbuster opening weekend, each collecting over ₹100 Crore worldwide, showing the eagerness of audiences to come back to theatres.
- The movie pipeline over the next 6 to 8 months both in Hindi and regional languages is extremely robust. Movies like ‘83’, ‘Gangubai Kathiawadi’, ‘SatyaMeva Jayate 2’, ‘Shamshera’, ‘Prithviraj’, ‘Lal Singh Chaddha’, ‘RRR’, ‘Rocketry’, and many others have already blocked dates before the end of March 2022. We are involved in releasing some of these movies in some circuits. Looking at the movie slate, we believe

that it's going to be an exciting time for all stakeholders of the film exhibition industry and the revival of the theatrical business may be faster than that was predicted.

On the film distribution business side, you will recall that we had released 11 movies before the second lockdown. I am happy to inform you that since the reopening of cinemas in July'21, we have released seven movies in multiple languages. The latest release was Rajnikanth starrer 'Annaatthe', on a Pan India basis except the Southern states. 'Kurup' a Malayalam movie starring Dulquer Salmaan has been released by us today in three languages on a pan India basis, except Southern States.

We have also started witnessing an uptick in the VPF revenues and digitization income. Since advertisers have been cautious, we expect that slowly and steadily the advertisers will also come back on the medium. We have already started seeing some advertising revenue from the last week when 'Sooryavanshi' released.

Coming to the headline numbers for the quarter and half year ended September 30, 2021.

Consolidated revenue stood at ₹265 million in Q2FY22 as compared to ₹128 million in Q2FY21. FY21 was a complete lockdown and the majority of the revenues were only from the sale of equipment and lamps in the middle east region. EBITDA loss in Q2FY22 was ₹152 million as compared with an EBITDA loss of ₹218 million in Q2FY21. Loss at PAT level was at ₹283 million as compared to a loss of ₹307 million in Q2FY21.

During H1FY22, the Consolidated revenue stood at ₹546 million as compared to ₹306 million in H1FY21. EBITDA loss reduced to ₹332 million as compared to ₹450 million in H1FY21. Loss at PAT level stood at ₹550 million as compared to a loss of ₹639 million in H1FY21.

As far as consolidated funds position is concerned, balance at the end of the quarter stood at ₹610 million as compared with ₹1,284 million in Q2FY21. On the debt front, as of September 30, 2021, the Net debt of the Company stood at ₹429 million as compared with the net cash of ₹87 million in Q2FY21.

Also, as you all must be aware, the Board of Directors of the company at its meeting held on November 3, 2021, had approved the fundraising by way of fresh equity through preferential allotment aggregating to ₹968.2 million (₹96.82 crore), subject to necessary approvals. We have already sent the notice for EGM which is scheduled for November 26, 2021. These funds will not only provide us with the requisite financial flexibility but also help in accelerating our strategic priorities. All relevant information and communications are available on the exchanges as well as our website.

Lastly, I would like to take this opportunity to thank all our stakeholders for their continued trust in the Company during these unprecedented times. We are fairly optimistic that as the situation improves further, the film exhibition industry will recover at a rapid pace and our business and financial performance will be restored soon.

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

Moderator:

The first question is from the line of Vikram Ramalingam from Maybank Securities.

Vikram Ramalingam:

Top two multiplex players as well as UFO by virtue of being listed were able to raise capital but what about the non-listed player especially the single screens and small multiplex screens? We keep reading some reports that say 5% to 10% of screens have been permanently shut down due to remaining shut for the last one and a half years, any guidance on that?

Kapil Agarwal:

While the multiplex chains that are listed were able to raise funds, the unlisted sector got affected. However, the unlisted or the small cinema chains are all privately owned and thus their overhead levels are much lower as compared to big multiplex chains. While single screens all over the country own the property, multiplexes are operating in the expensive properties in the malls taken on rent. Additionally, multiplexes require substantial manpower to operate, unlike the single screens which themselves manage their theaters. So, for a big multiplex, overheads and maintenance level is very high and at the same time, the interest costs are also very high which is not the case with the smaller chains and the single screens all over the country. Having said that, I think your estimate is very right and according to us, overall 5% to 6% screens will be shutting down permanently. Although to that extent the screen universe will get reduced. We are

also seeing that a lot of single screens have used this period to demolish their properties and convert them into two or three screens properties. Some of these screens are also getting added back but yes as per our estimate based on the information available with us, 5% to 6% of the screen are to shut down.

Vikram Ramalingam: In case of most of the big TV channels, Ad volumes are back and some are saying that it is back to pre-pandemic levels. So with respect to the cinemas in general, what could be the trigger point according to you? Is it allowing full occupancy or will it take another two or three big-ticket movies becoming blockbusters before you see the Ad volumes go back to normal?

Kapil Agarwal: TV was always there during the pandemic and their revenues kept going up and down but they never disappeared as was in the case of cinemas where the revenues completely disappeared. Since the cinemas started reopening we have been engaging with the advertisers. We had seen some advertisements in the Southern States as South movies i.e. Tamil and Telugu movies released in the last three months but not in the Hindi market because theatres in Maharashtra were closed and no major movie was released. However, with the release of 'Sooryavanshi', almost all States have opened up. It is surprising that the weekend collection of 'Annaatthe' a Rajnikanth movie despite occupancy restrictions in many states, was higher than his pre-pandemic release 'Darbar'. Similarly, the collection of 'Sooryavanshi' has been much higher than the movie of Akshay Kumar which was released before the pandemic. Coming back to your question of advertising, we are speaking with the advertisers and are seeing some advertisements already started flowing in the Hindi market as well. When we were speaking with the advertisers, they remained cautiously optimistic. So while they started with small advertising budgets for cinemas, they wanted to wait and see whether the audiences return to the theatres or not, as there was so much uncertainty during these 18 months and uncertainty around the third lockdown or the third wave. However, most of those questions have been answered and they are no more looking for the occupancy restoration but are looking at the footfalls and the footfalls are happening. The average footfalls are reaching the pre-pandemic level despite the occupancy constraints in many states.

We have started increasing our engagement with the advertisers and it should start seeing an uptick, but it will take time and is not going to go to the pre-pandemic level very rapidly. Secondly, the Government has also not started spending, and now we are actively engaging with the Central Government, DAVP, etc. because half of our advertisement revenue comes from the corporate sector and the other half comes from the Government. We expect the Government to start increasing its advertisement spending in the coming months due to the upcoming elections and thus expect significant improvement in our advertisement revenues in the coming months.

Moderator: The next question is from the line of Devarsh Vakil from HSL.

Devarsh Vakil: On the fundraise of ₹96.82 crore, can you please elaborate more on how are you going to spend this money? Are you going to use this to repay some of the debt and what kind of capex are you going to do?

Kapil Agarwal: As you know that during the entire duration of the pandemic spanning over 18 to 19 months, we survived on our funds without raising any fresh funds from equity. During these 19 months, we retained all employees and survived the entire period without any funding. Firstly, as of now, the whole objective of raising funds is to have a sufficient fund balance in case if any third-wave happens. Secondly, when we say the strategic initiatives, it can be anything because right now there may be many organic and inorganic opportunities available but we have not decided upon anything. It is just like having sufficient liquidity like we had substantial cash in the bank and substantial leveraging available when the pandemic hit us in March last year. Because of the sufficiency of cash and the leveraging which was available, we could survive the entire pandemic and we have come out of it. Similarly, now we want to have sufficient funds available to us. We do not want to be constraint if there are any opportunities available in the future because we believe that there will be opportunities available in the market which we can take advantage of as everybody may not be having sufficient funds like we had or we have now. At the moment we are busy in reopening, bouncing back and whenever any initiatives or any opportunities come up, the Board will meet and decide from time to time.

Devarsh Vakil: I want to understand two things about the business. First, since there was a prolonged lockdown, do we need to spend money on our exhibition equipment to make them ready for deployment? Second, regarding the distribution business, earlier we had decided that we will not go for the minimum guarantee kind of distribution and so, a certain percentage of the ticket revenue will flow to us. What kind of margin do we expect from it and if the film becomes a super hit or a blockbuster, do we earn more revenues from it?

- Kapil Agarwal:** Firstly, as I mentioned earlier, we did not layoff any employees. So all our engineers and our regional staff were deployed in the preventive maintenance of the equipment from time to time. After the first lockdown, theaters did open and they were open for six months so we did not see any substantial cycle of spending money and the second lockdown was only for three to four months. All the machines were kept well maintained and would only require normal maintenance Capex. For better understanding, if I was spending ₹1 crore on maintenance Capex earlier, now I may spend ₹1.2 crore and that 10% to 20% rise cannot be ruled out but there is no major Capex or maintenance cost. Secondly, on the distribution business, our policy continues to be the same that is we do not give any minimum guarantee and we do not invest in the content. We are doing a pure fee-based distribution business because of our network strength and access to the exhibitors and our relationship with them. We are releasing almost one movie a week irrespective of whether it is a small movie or a big movie, whether we are releasing it at pan-India or in a certain region. It is giving more and more confidence to the producers that UFO can provide far greater access to these screens, and collections are more secure because of UFO's relationship with all these theaters. As we have to give them movies week after week, so normally exhibitors do not bother us with the collection and this has given more confidence to the producers in the distribution capabilities of UFO and as a result, the business is expanding. Eventually this will become a steady revenue generating business and even in the future, we do not intend to invest money in the content by way of minimum guarantee or by way of the acquisition of content.
- Devarsh Vakil:** Is there an upside on the percentage of fees we get based on the success of the film or it is just a fixed percentage which we get for every film?
- Kapil Agarwal:** These are as a percentage of the box office collection. It is not that if the movie earns more than ₹100 crore we will get 5% extra commission. It is a pure fee-based business and the idea was to establish the business vertical without spending any money on infrastructure and people. We already have 24 offices all over India and our people are well connected with producers. Every producer has to come to us to release their movie digitally. Similarly, we work with all the exhibitors as we give them equipment and do the maintenance of the equipment, we also give exhibitors the release order and license of the movie every week. So, we are connected on both sides and thus it was a very seamless addition of a fee-based business without an increase in any expenditure and without any risk.
- Ashish Malushte:** It is not an absolute fixed fee, it is percentage to the box-office.
- Kapil Agarwal:** Sometimes it is going to be based on the percentage of the box office collection and sometimes it will be a fixed fee also because if there is a very small movie and we feel that this movie will not even collect ₹50 lakh then we may charge ₹10 lakh to ₹15 lakh fee. So there may be some cases where we will charge a fixed fee but normally it is a percentage of the box office collection.
- Devarsh Vakil:** Because of the pandemic we gave certain discounts on the Virtual Print Fees (VPF) to our customers, do you now see it coming back to normal levels as it was charged earlier?
- Kapil Agarwal:** To encourage the release of more movies we had given concessions on VPF which were as high as 100%. Now, as the movies have started coming back to the theaters, we have started withdrawing those concessions. For example, last month when a major movie was released, we reduced the discount from 100% to 75% and for this month we have reduced it to 50%. 'Sooryavanshi' which has released in November, and for the Yash Raj movies and other movies that would be releasing in November we have reduced the discount to 50%. We are also assessing the situation market-by-market, like for example when we saw that Punjabi and Gujarati movies are doing well and they do not need concession as they are earning ₹20 crore or ₹30 crore of revenue on a ₹3 crore budget, so why should we not take our share. So, we reduced the discount to 25%. Bengali market is at a 0% discount and we have already increased the VPF to 100% there. As we can see, in the first week itself big movies are doing more than ₹100 crore business and within India itself movies are doing ₹70 to ₹90 crore business in the first three days itself. This shows that audiences are returning to the theatres and thus there is no need to continue the discounts. May be in a month, we might reduce the discount to 0% or 10% to 15%. However, the decision will be based on various business factors like if the cinemas are allowed to operate at 100% occupancy and if not we may reduce the discount to 25% for December and if the restrictions are eased further, it may get reduced to 10% or even 0%. From the trend, it is visible that discount in Gujarat and Punjab has come down to 25%, while in Maharashtra we have brought it down to 50% which will further go down and for West Bengal, there is no discount. We are thankful to the producer community that they have also been very supportive. Although they were not willing to pay at first but when we explained to them our situation and explained that they

needed us to deliver the movies, they understood that and since then have been very supportive in helping us restore our VPF.

Devarsh Vakil: Assuming everything comes back to normal from March 2022, what kind of revenue potential do you see in the distribution business, the trading business of Wolf Airmask, and the social media application business?

Kapil Agarwal: We have a lot of confidence in the distribution business because we know the kind of movies that we are negotiating and the movies are getting bigger. We have also created a niche where we have now started bringing a lot of South Indian movies including those of Rajnikanth, Surya, Vijay, Dulquer Salmaan, and others. All of them are very well-known individuals but their movies were not releasing in the North because they did not find any distributor. We have carved out a niche for ourselves and are bringing a lot of South Indian movies into North India and with that, even the size of the movies is getting bigger. We think that business should stabilize very well. As far as the WOLF Airmask business is concerned, it is a COVID related business and is a temporary business. We are selling WOLF Airmask as a product that neutralizes the virus and safeguards people. It is a one-time business that is generating some cash for the Company. So to summarize, the distribution business is a more steady business and Wolf Airmask is an opportunistic business and temporary in nature.

Moderator: The next question is from the line of Rahul Dani from Monarch Network.

Rahul Dani: Sir, just wanted to understand about our Zinglin app, how are you looking at this and how do you see the OTT platform going forward? Secondly, on the Caravan business, are we looking to re-enter the Caravan business, and what is the growth opportunity in that business for us?

Kapil Agarwal: As far as Zinglin is concerned, I have always maintained that it is a long-term value creation business. Businesses like Zinglin need a lot of capital to grow, acquire customers and create value. Zinglin has been fully developed in-house by our existing people with very limited capital. It is a separate subsidiary of the Company and will independently raise funds whenever required. We do not intend to utilize UFO's capital in this business. We will continue to look for opportunities and partners to join and develop it further. On the Caravan business, we were always in this business and will be continuing to run it. We own 114 vans but since the whole country was under lockdown there was no business for Caravan. However, we are reactivating it now and are engaged with various sectors and from next quarter we should start seeing some revenues from this business.

Moderator: The next question is from the line of Urmil Shah from Haitong Securities.

Urmil Shah: My question is on the strategic roadmap, if you look at three to five years down the line, how do you see the business reshaping with a good opportunity in the distribution side and also the new initiatives?

Kapil Agarwal: Yes, it was a tough period but you all will agree that this speaks volumes about the financial strength of the Company and the way the Company has been managed that even without raising any funding we were able to sail through the entire period without laying-off any of the employees.

On the strategic roadmap, one of the major business that we feel should build up over the next two to three years is the fee-based distribution business. The reason for this is that there were a lot of corporate distributors in the country and particularly in the Hindi market and all these corporate distributors made a very heavy investment into the content. They all lost money because nobody can guarantee that whether content will work or not. You will make money from 20 movies but you may lose that entire money in one movie. Eventually all these corporate distributors got shut down. Distribution has become a very unorganized play in the country and there is no Pan-India corporate distributor. The known individual players or even the big players, nobody has an all India network like UFO, and that is where we saw the opportunity. When we ventured into this business, we took the learnings from the mistakes of other corporate distributor and decided not to invest in the content and focus only on the fee-based business. People trust in the integrity of UFO because of the easy and quick settlement of the accounts. So, our existing goodwill will get more goodwill and more work.

On the long-term initiatives, we have started the social media app called 'Zinglin' and our OTT platform called 'Plexigo'. Our interest also continues in the exhibition business which is under Nova Cinemaz because of the dearth of cinemas in India. China has 70,000 screens and in India, we only have 9,000 screens of which around 5% of screens will shut down and will be left with only 8,500 screens. It is just 6

screens per million of the population for a movie-loving country. So we have identified the virgin regions where there are no screens in the 50 kilometer radius. Models are being worked out on how do we accelerate the increase in screens count as semi-urban and rural India does not have any access to cinema. All the cinemas are in urban areas. A lot of work has been going on in the exhibition business which will also create a lot of value for all stakeholders. Imagine a movie that used to get released in 500 screens in the pre-2005 era and because of our digitization efforts it started releasing in 5,000 screens, each of these movies can also be released in 20,000 screens. This is how the collections have moved from ₹20 crore to ₹100 crore and from ₹100 crore collection should move to ₹500 crore or ₹1,000 crore. And for that, providing that infrastructure is extremely important. At the same time, we are cautious and have been experimenting with that model over the years with very limited capex. In order to not diverge the funding of UFO, we have formed separate wholly-owned subsidiaries for each of these businesses.

A very interesting model has been worked out which is a cinema and utility center with the banking, medical and various other facilities which is the need of the hour in the country and also fits in the policy of the Government and the Prime Minister. Very limited Capex is being done in them as an experiment and once the experiment is successful it will raise individual capital for that business and the valuation will flow into UFO eventually. UFO will continue concentrating on its core business and focus on growing advertisement and other revenues.

Urmil Shah: Now that your core business will see a ramp-up and you will have other businesses also where you would want to scale up, so from a two years point of view if you have to divide your bandwidth amongst them so what would be the share change over the next two years?

Kapil Agarwal: There are completely different management teams even today. During the lockdown when UFO's business was shut, we used our manpower strength for creating or developing these new businesses. Now everybody who is required in UFO's core business is back into UFO because that is our core business and our core strength. All the other projects have been handed over to the individual teams. For example, Nova Cinemas has an independent CEO. This gentleman used to be the CEO of Essel World and is now the CEO of this business. He has created his independent team for the exhibition business. There is no concentration or diversion of attention from UFO into that business. Similarly, Zinglin and Plexigo have their staff. Only additional people that were available in UFO have been assigned there, the rest are appointing their people and raising their capital. UFO's business is our core business and that is our strength. Our highest concentration is on that business and it will not be allowed to get affected under any circumstances.

Urmil Shah: What are your thoughts on the changes seen in the sharing of revenue done by the multiplexes and is expected to remain so till the end of this financial year with the highest share to the distributors and producers. What does that mean to UFO on the face of it you should be a beneficiary, would that be a right understanding?

Kapil Agarwal: The sharing of the content revenue is directly between the exhibitors and the producers. Since everybody saw very bad times, everybody was struggling to come back. There was some kind of a transition that had to happen in the industry and some kind of a temporary understanding which had to be developed. So the understanding was in three parts and the first one was the revenue sharing. In revenue sharing, producers were demanding 60% revenue which was much higher as against a 50% or 52.5% revenue which was for example applicable for the first week. The second issue was the OTT window. Generally, the practice was an 8 weeks window before a movie went to the OTT. However, producers started selling the movie to recover their losses, interest costs, etc. during the pandemic, and this window was reduced to two weeks or four weeks. Some settlement in some good sense had to prevail. Now when the producers and the exhibitors saw that the cinema is coming back and the kind of response the movies are getting, they had to settle these issues. A settlement was reached that no one shall ask for unreasonable terms and agreed that till March 31, 2022, they will give 2.5% extra revenue in the first week. So instead of 52.5% sharing for the first week, it will be 55% and for the second week instead of 45%, it will be 47.5%. So they agreed mutually and formally on those terms that is what we understand because we are not part of that chain but we learned this from the industry. Similarly, for the OTT window they agreed to a four-week window until March 31, 2022, and from April 1, 2022, onwards the eight-week window will apply. Thirdly, on the VPF revenue front, everybody was against paying the VPF charges. Subsequently, a meeting of all the stakeholders happened and we explained to them very clearly that there is no sunset of VPF. When analysts speak to the producers, they say that they will not pay VPF to UFO. They have been saying it for the last eight years. It is time everybody should understand that VPF sunset has not happened and it will not happen because we

are not part of the film fraternity and we are not sharing the prosperity downside or upside of the content. We are third-party independent service providers and they have no other route available and we have explained it to them and now everybody understands that there will be no sunset. So that message has gone very loud and clear during this period. Also, we have helped them in the transition starting with a 100% discount as explained earlier. Even 3-4 years back, South Industry said they will not pay VPF. Tamil Nadu industry went on strike and the strike continued for 49 days but ultimately they had to pay us the VPF. So, overall the VPF matter is settled now. We have had enough discussions on who is going to release free of cost even in November. Even 'Sooryavanshi' did not release free of cost though we gave a 50% discount. From the next month, the discount will further keep going down or to zero in the next one or two months depending on how the reopening happens. All these issues during the pandemic have been settled so that the business and the industry can come back to a steady-state.

Urmil Shah: The commission percentage of fee share for the distribution business that got increased by multiplexes, it is more or less similar to what it was earlier in your case?

Kapil Agarwal: Commission percentage is fairly standard which varies depending on the scope of work. In the distribution business, apart from the networking advantage with the exhibitor and timely collections as exhibitors have to pay us on weekly basis, we also utilize our advertisement inventory so that we can promote these movies, so we can charge a percentage or two extra. In that way, our advertising inventory also gets pushed with the distribution business. There are two types of risk in the distribution business. The first risk is related to the content in the form of minimum guarantees for the content or acquiring content which requires huge investment. The second risk is the print and advertising (P&A) risk which is the substantial advertising cost and could range in between ₹5 crore to ₹8 crore for a big Hindi movie. It is a risk because what if the movie doesn't perform at the box office and often there is a requirement in the market that as a distributor to take up this activity. In the past, the corporate distributor used to spend huge money on the promotion and has been affected due to it. So there was always a need that if you want to grow in the distribution business you will also have to spend money on print and advertising (P&A). However, we did not want to take that risk and so have tied up with a couple of companies who are becoming our P&A partners. So either we distribute the movies or co-distribute with them and these movies are of different sizes. If I have to spend ₹50 lakhs for P&A, I go to the smaller partner who spends this money and take a percentage from our distribution commission and we recover this money on a LIFO basis. We first pay their money before any money goes to anybody else and pay a percentage from our commission to them. Where there is a requirement of bigger P&A spend which could be ₹5 crore or ₹8 crore etc., we have tied up with bigger partners who are willing to spend. Sometimes they are becoming co-distributors and sometimes they are just putting the money on the P&A because they know that when the distribution happens money will be recovered. Their money is not going anywhere and UFO will be able to settle their dues. In just a short period, we are not only doing distribution business but we also have these tie-ups. With the help of these tie-ups, we have started picking bigger movies and from next year the contribution of the distribution business will start increasing. If we become an all India distributor and start distributing say two movies a week, it will sum up to around 100 movies in a year. This business has a huge potential to grow without any additional expense and risk.

Moderator: The next question is from the line of Ankit from Bamboo Capital.

Ankit: How much was the VPF share in our total revenues in pre-COVID time and do we expect it to return to 100% levels over the next year or in the medium term?

Kapil Agarwal: It is a matter of one or two months provided the third wave does not happen and another lockdown does not happen. Movies are already in the pipeline to get released, and as explained earlier in the call, that may be in a month or two months depending on when the capacity gets restored, VPF should ideally come back to normalized 100% levels unless there is some external factor hindering the release of the movies. The VPF revenue may be higher than the normalized revenue because we charge VPF on pay per show basis for the first two weeks and when the movie goes to the third and the fourth week we run it free. However, now looking at a slate of movies, every week there will be a new release and that will not allow the previous week's movie to overflow to the third week, except maybe for a blockbuster. For example, after 'Sooryavanshi', 'Bunty Aur Babli 2' would be releasing on 19th November, and then on 26th 'Satyameva Jayate 2' and 'Antim' would be releasing. Now, these movies will not allow 'Bunty Aur Babli 2' to overflow to the second or third week. We will not be surprised that the VPF revenue gets restored and we may on a monthly basis earn higher VPF revenue as compared to what we have done in previous years once the VPF discounts are restored. We have participated in so many debates on whether the cinema will

survive or whether OTTs will kill cinemas and so many times it has been written that with the advent of TV, videotapes, CDs, and now OTT, cinema will lose its steam. However, the business is coming back faster than expected.

- Ashish Malushte:** In FY20 we had 31% of our consolidated revenue coming from distributors and it was 29% in FY19.
- Ankit:** What will be the impact of the increase in the movie ticket prices by multiplexes and other cinemas on our revenue share and does the VPF depend on movie ticket rates?
- Kapil Agarwal:** There are three different models of VPF which are prevalent in the market and none of them is dependent on the collections unless we launch another model based on the collection or the ticket prices. One model is you pay one-time VPF and run the movie for life of that particular location. However, that is the risk for the producer because if he pays a fixed amount which is usually higher and the movie does not work, he ends up paying more. The second model is that you pay weekly, you pay for the first week and then you pay for the second week. The cumulative amount is far higher than the fixed amount. The third model is based on a pay-per-show basis. For example, in Hindi markets let us say ₹425 is the price for the first week, so for every show you pay ₹425, and from the second week onwards it is ₹350 and third week onwards there is nothing. So, these are the three models which are available and none of them is dependent on the box office collection or the ticket prices. Higher ticket prices will probably help the distribution business as our distribution fee is based on a percentage of the box office collection.
- Ankit:** When everything normalizes and there is no third wave, will any of our segments get impacted because of the pandemic in the long term, or all these segments will normalize and can even see some improvement over the next one or two years?
- Kapil Agarwal:** Two of our revenue streams - VPF and the rental income from equipment are fairly steady. VPF and rental are pretty much fixed and you will not see much change year on year. Of course, if you compare the VPF of 2019 with 2020 or 2018 with 2019 you will see a change because there was a sunset clause in the Hollywood studio agreement, and between 2016 and 2020 slowly that waterfall impact happened as per the agreement. So, VPF might be slightly higher when every week a new blockbuster movie is released stopping the older movie from entering the third week. We do not charge VPF for the third week, so since a movie is not entering the third week and instead a new movie is getting released we may end up making slightly higher revenues once the VPF is restored to 100%. As far as the rental business is concerned, rentals are fixed for years but you may see slight variation depending on the kind of projectors that has been installed and if somebody is changing the projectors. On the macro level it will be a fixed amount. However, in advertising revenue there is variation, it was around ₹230 crore in 2019 which dropped to around ₹160 crore in 2020 because the government did not spend money and Caravan business did not happen. The fourth stream is the equipment sale. Sale of equipment is predominantly in the international markets. We sell mostly lamps in India and its sales are pretty much a steady business. Equipment sale is mostly happening in the Middle East and that is also when any new market opens up. For example, in the last two years, the Saudi Arabia market opened during the pandemic and we did a lot of equipment sales there but when that market gets saturated there will be lower equipment sales. It happens in a certain fixed market and that is how it is.
- Moderator:** The next question is from the line of Urmil Shah from Haitong Securities.
- Urmil Shah:** What would be the promoter shareholding after the fundraise?
- Ashish Malushte:** The promoter stake would be at around 23%.
- Urmil Shah:** We have incubated multiple businesses, so maybe we should be focusing on a few and scaling them up rather than having multiple businesses?
- Kapil Agarwal:** As mentioned previously, the entire management team is divided based on the projects. I am personally not involved in any of the new projects or the new initiatives like the Nova Cinemaz, Zinglin, or Plexigo. These are all driven by Mr. Sanjay Gaikwad our Managing Director and he has a limited role in the day-to-day operations of the Company. Whatever expansion is happening within UFO Moviez as an extension of the existing business like the distribution business, it is being managed by myself. Basically, there are three basic initiatives which are Plexigo, Zinglin, and EUC. The higher concentration is on the Nova Cinemaz business because we have spent years perfecting its model. We believe we have reached a point now and the business may uptake. However, it is not that you are spending all your time on it or you are

diverting the attention from running the UFO business. So these are the three initiatives that are in place in three different subsidiaries and eventually will find their path without any major investment from UFO. UFO is only making a startup investment of a few crore in it and we have not invested even ₹10 crore in the last two years in them. There is no attention of the current management going into these projects. However, you have to invest some time and money for the future. These are those future-based projects and they are being handled very carefully and there is no diversion of attention from the existing business and it is well balanced within the company.

Urmil Shah: Just a humble suggestion, from a minority shareholder point of view it would be good that we have less number of businesses and both management and capital bandwidth goes into scaling them up.

Kapil Agarwal: I take your point Urmil, but I have already explained to you that both these things are being taken care of. Even I am telling you that we have spent ₹300 crore cash in the last 19 months since the pandemic was declared and out of the money spent, investment in these new businesses is less than ₹10 crore. By scale itself, I have explained that there is no diversion of money or capital efficiency which is being compromised as far as the core business is concerned.

Moderator: The next question is from the line of Manan Patel from Airavath Capital.

Manan Patel: I understand that VPF is largely paid by producers and sometimes by distributors as well. So when we do distribution, will it affect VPF in any way as in combined sales or you might have to reduce the VPF?

Kapil Agarwal: No. It does not. VPF is a fixed charge and it comes from the revenue collection. As I have explained earlier in the three different models, VPF gets charged that way. As a distributor, the only reason you can lose VPF is suppose the VPF is ₹50 lakhs for a movie and the movie flops so badly that it does not even collect ₹50 lakhs then you may lose ₹2 lakhs or ₹4 lakhs up or down. It will be a management failure if we select a movie that do not even recover the VPF. Typically, the VPF should be 2% to maximum of 10% of the collection. If it is 10% of the collection, that means you are expecting ₹100 collections out of which ₹10 is VPF and you will lose VPF if you collect only ₹5. This means that you have picked up the wrong movie or you have distributed so badly that against your anticipation you are collecting only ₹5 in revenue and that is somewhere management's failure. Out of the collection, first, the P&A is recovered if the third party is investing, then VPF is recovered followed by our trailer revenue and then only the overflow goes back to the producer.

Manan Patel: The Second question is again on the dilution front. I understand that this is a very big dilution of almost 30% and the new investor's stake will be higher than the promoters. Unfortunately due to a lot of reasons we have not been able to create shareholders wealth, and on top of that we are diluting at a low point of the industry and stock price as well, so could not it have come at a better time because we are seeing a lot of upsides in terms of business over next few months and we could have done it at a much better time when we have specific strategic initiatives in place so that it could have affected all the shareholders including the promoters, what are your thoughts on this?

Kapil Agarwal: The issue in front of us was, four months back when we started the process of fundraising, the occurrence of the third wave and extended prolonged lockdown was looming over the Company. We were very comfortable last year when the lockdown happened as we had enough funds in our bank. Everybody expected the pandemic to last for 3 to 4 months and the cinemas would open by July or August 2020. However, theatres opened in October and from October to January there was no major release. When in March 2021 major releases started, again in April the lockdown happened. Nobody had thought about it or was ready for it. It is after 100 years such a thing has happened and in the living memory of the existing generation, there was no history or there was no experience available. When the second lockdown happened, we expected it to last for one or two months. However, it kept prolonging and it was worse than the first lockdown and that's when we thought that if this lockdown continuous till March next year, will we be able to survive? The Answer was no because we did not have sufficient liquidity. That is when we decided that instead of losing the Company we should raise some capital even at the cost of higher dilution. When those commitments were made, the lockdown was lifted. We then decided to use these funds for the strategic initiatives as and when decided in the future for the further growth of the Company. Now the promoter's point of view was that instead of holding a major stake in a defunct company, it is better to hold a smaller stake in a much larger Company and do the value creation for everybody. So that has been the idea and hopefully, with the new strategic initiatives, we create value for our shareholders. Even though from IPO in 2015 till 2020 before the lockdown happened, our cumulative post-tax cash earnings were

over ₹600 crore and on that, we have distributed a total dividend of around ₹255 crore including dividend distribution tax in those five years which is 755% dividend in those five years. Despite such a strong fundamental, the stock prices have not supported us because of some rumors in the market that the producers will not pay VPF and because of which the Company will shut down. We have been putting in our efforts and have been earning cash. However, coming back to the original question, we started anticipating the third wave and we needed capital for growth.

- Manan Patel:** I read in the announcement notice for EGM that there is not going to be any management change but are they going to introduce any board members in the Company?
- Kapil Agarwal:** They will have a board position in the Company.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vikram Ramalingam for his closing comments. 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 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.