



**UFO Moviez India Limited
Q4&FY23 Earnings Conference Call**

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MANAGEMENT:

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SR. ANALYST:

Mr. TUSHAR PENDHARKAR – VENTURA SECURITIES LTD

Moderator: Ladies and gentlemen, good day, and welcome to the UFO Moviez India Limited Q4&FY23 earnings conference call hosted by Ventura Securities Limited. 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 would now like to hand the conference over to Mr. Tushar from Ventura Securities Ltd. Thank you and over to you, Sir.

Tushar Pendharkar: Thank you. Good day, ladies and gentlemen. On behalf of Ventura Securities Ltd, I welcome you all to the Q4&FY23 earnings call of UFO Moviez India Limited. The company today is represented by Mr. Rajesh Mishra, Executive Director and Group CEO of the company, and Mr. Ashish Malushte, Chief Financial Officer of the company. I would now like to hand over the call to Mr. Mishra for opening remarks, post which we can open the floor for Q&A. Thank you and over to you Sir.

Rajesh Mishra: Thank you, Tushar. Greetings everyone and thank you all for joining our Q4&FY23 earnings conference call.

Let me start with the updates and highlights for this quarter and financial year.

Q4FY23 commenced on a high note with the blockbuster release of 'Pathaan' in January, reaffirming faith in the success of big-budget Hindi movies and setting an exciting tone for the quarter. However, the positive trend experienced in January did not continue throughout February. This was primarily attributed to the underperformance of movies like 'Shehzada' and 'Selfiee' as well as lack of mass-appealing content during the month, impacting the theatrical revenues and leading to lower-than-expected outcomes in that particular segment.

Despite the challenges faced in February, March proved to be a better month with movies like 'Tu Jhoothi Main Makkar' and 'Bholaa' generating decent box office collections, contributing to the overall performance of the quarter.

While there was a mixed performance from Hindi movies during the quarter, the regional cinema segment continued to perform well. Films like 'Varisu', 'Waltair Veerayya', 'Thunivu', and 'Ved' continued to generate significant box office collections, reflecting the diverse and appealing content preferences of our audiences.

Overall, the mixed bag of content and big-budget successes of some films during the quarter had a positive impact on our advertisement revenue. Q4FY23 proved to be the best quarter in the fiscal year 2023 in terms of advertisement revenues, with the company reporting Rs. 248 million in Q4FY23 and a total of Rs. 755 million of advertisement revenues for FY23. The Advertisement revenue has grown by approximately 28% over Q3FY23 and 240% over Q4FY22. While the steady flow of content and recent successes has increased the corporate advertisers' confidence towards in-cinema advertising, revenues from the central government advertisement continue to be a challenge due to reduced central government spending across mediums. However, state governments and PSUs have begun allocating budgets towards in-cinema advertising.

FY23 was the first year of uninterrupted operations after the global pandemic. Despite the lackluster performance and content volatility faced by the industry, the company has maintained a steady recovery, showcasing resilience and improvement across the business verticals.

Now, let's move on to the headline numbers for the quarter and full year ended March 31, 2023. Consolidated revenue stood at ₹884 million, compared to ₹561 million in Q4FY22. EBITDA in Q4FY23 was ₹115 million, compared to an EBITDA loss of ₹119 million in Q4FY22. The EBITDA Margin improved in Q4FY23, to 13% from -21.3% in Q4FY22. Loss at PAT level was ₹12 million, compared to a loss of ₹189 million in Q4FY22.

For the full year FY23, the consolidated revenue stood at ₹3,978 million, compared to ₹1,639 million in FY22. EBITDA improved to ₹339 million, compared to an EBITDA loss of ₹472 million in FY22. Loss at PAT level stood at ₹132 million, compared to a PAT loss of ₹869 million in FY22.

Regarding the consolidated funds position, the balance at the end of the quarter stood at Rs. 806 million. After considering outstanding debt, as of March 31, 2023, the company continues to be net cash positive.

Looking ahead, the successful release of diverse content across languages, growing acceptance of Southern cinema in Pan-India markets, along with the exciting line up of movies in Hindi and other languages, is expected to drive significant business growth.

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

With that I open the floor to take your questions. My colleague, Mr. Ashish Malushte, CFO and I will be happy to take your questions.

Thank you.

- Moderator:** First question is from Vaibhav from Honesty and Integrity Investments. Please go ahead.
- Vaibhav Badjatya:** In terms of the Central Government advertising, are you seeing any recovery for the rest of the year as elections are also coming next year?
- Rajesh Mishra:** So, as I mentioned in my opening remarks, the Central Government is still a challenge as they have reduced spends across mediums by quite a large margin. However, we continued to be engaged with the Central Government through empanelment, rate revisions and ongoing discussions. Looking at the future, we are hopeful to generate some revenue from the Central Government. But as I said, it is still a challenge on that front.
- Vaibhav Badjatya:** Okay. So as far as empanelment is concerned?
- Rajesh Mishra:** Yes, it is a question of renewal. So that keeps happening on a regular basis. It is a procedural thing.
- Moderator:** Thank you sir, the next question is from Niteen S Dharmawat from Aurum Capital, please go ahead.
- Niteen S Dharmawat:** My first question is, what is the consolidated cash position as of today?
- Ashish Malushte:** As of 31st March, according to the Balance Sheet, we maintain a net cash position. However, the net cash levels were at Rs. 1 million. Our gross debt stands at Rs. 805 million, while our total cash and cash equivalents amount to Rs. 806 millions.
- Niteen S Dharmawat:** Got it. My second question pertains to in-cinema advertisement revenue. Currently, on average, what is the percentage sharing with theaters compared to pre-COVID levels?
- Ashish Malushte:** Yes, so prior to COVID in FY20, the revenue sharing percentage was 36.4% when our advertisement revenues were around Rs. 150 crores and currently in FY23, the sharing percentage stands at 60% based on advertisement revenues of Rs. 75 crores. The question arises as to why this sharing percentage has increased. However, it's important to note that a significant portion of the sharing amount, which is Rs. 44 crores this year and was Rs. 53 crores in FY20, comprises a minimum guaranteed amount. So, unless we surpass the minimum guaranteed amount, the benefits to company won't increase proportionally.
- And till that time, the percentage of sharing appears to be higher. In other words, if the revenue of Rs. 75 crores were to increase by 33% to Rs. 100 crores, the ratio would decrease significantly from 60% as a major chunk of this 44 crores of sharing is minimum guaranteed and therefore it won't increase in the same proportion. So, to answer your question, technically sharing percentage

has increased from 36% to 60%. However, I would like to emphasize that the 60% is not a variable percentage, and as revenues continue to rise, this percentage will decrease.

- Moderator:** Thank you. The next question is from Aditya Sen from Robo Capital. Please go ahead.
- Aditya Sen:** I'd like to know how the current quarter, Q1 FY24, is trending so far. Are we witnessing any growth in terms of advertisement revenues? Also, how are the movies performing in terms of box office collections?
- Rajesh Mishra:** So, in Q1 we encountered some difficulties on the Hindi front. However, South continues to perform well, maintaining the business as usual in the south market. With regards to the Hindi market, we faced certain difficulties in the month of May, but upcoming June month looks promising with a lineup of highly anticipated releases, especially Adipurush is generating a lot of excitement and it is expected to deliver excellent results. Additionally, we have other films in the pipeline, such as Zara Hatke Zara Bachke, Maidaan, SatyaPrem Ki Katha, and even the English movie Indiana Jones. With such a strong lineup for the month of June, we are optimistic about the performance of this quarter.
- Aditya Sen:** Okay, so it would be more or less similar to Q4, as in Q4, we had Pathaan and in Q1FY24 we will have Adipurush. So at net level it would be more or less same in terms of revenue and the EBIDTA.
- Rajesh Mishra:** We already have a certain order book in hand where the orders for the quarter have been received. Moreover, the release of these new lined up movies will generate additional business. Hence, we should be in a better position.
- Aditya Sen:** Okay sir, so any guidance for the full year FY24-25, in terms of revenue and EBITDA.
- Rajesh Mishra:** At this stage, it's difficult to provide specific guidance as the advertisement revenue is linked to the performance of films. So we remain cautious and continue to be optimistic.
- Ashish Malushte:** Aditya, I would like to highlight that our industry faced significant challenges last year and we have come a long way since then. In fact, a year and a quarter back, Southern films were doing well and there were hopes, however, the following six months were challenging. As Rajesh mentioned to you, one of the strongest indicator for us is the fact that we have been able to secure a healthy order book. Advertisers are ready to commit to this medium for longer periods, such as 3 months, 6 months, or a year. Now we hope that this order book, where the advertisers are willing to invest, will receive support from decent films that attract audiences back to cinemas. We are closely monitoring this situation. Our business has come a long way from where it was a year ago.
- Aditya Sen:** Right. Is it possible for you to quantify the order book that we have?
- Ashish Malushte:** We have an order book worth around Rs. 20 crores, specifically on the corporate side. So, since you're tracking the business so closely, the recovery in advertisement revenue is around 58% on a full year basis, as compared to pre COVID levels in corporate sector alone. Although the overall ad revenue recovery might appear lower, the recovery in the corporate ad revenue segment is 58%. And if you compare it with some of the listed multiplexes, their recovery is slightly lower than this percentage. So, our business and segment is attracting advertisers, and we hope to progress well with the support of content in the next couple of quarters.
- Moderator:** We have a follow up question from Niteen S Dharmawat from Aurum Capital. Please go ahead.
- Niteen S Dharmawat:** Yes, thank you for the opportunity again. So last quarter, Pathaan was a good release and this quarter starting April, how is Kerala Story doing?

- Rajesh Mishra:** Kerala Story did good business and it picked up through word-of-mouth. There was also an increase in the number of screens in subsequent weeks. It achieved decent business results, but being a sleeper hit, it becomes challenging to retrospectively book business on that, however, it is a good indication that audiences are drawn to cinemas for good content, even if it is lesser-known cast films. So, content driven films will continue to work and that is the lesson we can take from this.
- Moderator:** The next question is from Nitin Gandhi from KIFS Trade Capital Private Limited please go ahead.
- Nitin Gandhi:** Having passed through a survival phase, what could be some 3 or 4 good moves that can enhance the ability to reduce minimum commitment guarantees and regain significant control over ad revenue? And besides the ad revenue, where else you can do something different, if you can share some thoughts or your plans or action, it will be helpful, thank you.
- Rajesh Mishra:** So, the constant endeavor is to keep the cinemas in the fold, continuously improve the product mix, and strategically target the screens that serves as key drivers from advertising perspective as when the good content comes, we have to be ready for the market. And as I said, the advertisement revenue largely depends upon the success of films and a couple of good quarters can change that trend entirely and that is what we hope for.
- Nitin Gandhi:** What is the top movies collection as a percentage of revenue in hand?
- Ashish Malushte:** I really did not understand your question as we are not into film distribution business or film exhibition business. Therefore, the box office collection of a specific film won't really have any direct impact on our business. For instance, if Kerala Story has done well, our service revenue from distribution services would be at the same level, at which it would be if some other movie had run in place of Kerala film. So, if you can just clarify your question further, we would be able to address it better.
- Nitin Gandhi:** Yes, sure. So, when we say like Pathaan did well, so during that phase, based on your planning and exhibited space selling, what is the percentage of revenue that flew during that period? That's what I'm trying to understand.
- Ashish Malushte:** Yes so, the best part in our business is that we are not really dependent heavily on the success of few movies. So in other words, it's not that 20-30% of our total revenue comes from 1 or 2 or 3 films. But the situation currently is that we are getting out of COVID period and in southern part of India, there is a very handsome recovery of business. In fact, in a few months, they have crossed the pre COVID level of occupancy. We all have seen the way the films have done in south. But in non-south region, not just Hindi, but even the regional content, over there we are not seeing this kind of a pickup.
- So, while we mention the success of films like Pathaan in the last quarter and our expectations for Adipurush this quarter, it doesn't mean that these particular films will significantly contribute to our overall revenue. Our biggest challenge, and one we are handling well in my opinion, is to regain the trust of advertisers and bring them back to our medium. As I explained during previous question that I have an order book, and we are waiting for advertisers to resume their spending, and content plays an important role in this process.
- So, if we get two or three good contents, it doesn't necessarily have to be high-budget or star-studded movies, but rather a series of back-to-back successful releases, then even in the non-south region, audiences will start returning to theaters. This will allow us to quickly reach the pre-COVID revenue levels. So when we say we are closely monitoring the performance of these movies, it's because their success is vital for us in reaching a stable state where a single film won't determine the fate of our business.

- Nitin Gandhi:** Yes, I do understand that there is correlation. But is there any relationship between the release of 2 or 3 good movies releases and increase in audience engagement, resulting in a successful month for you as advertiser?
- Ashish Malushte:** In the past, we have observed a trend where the advertiser's interest and investment in this medium increases when two or three successful movies are released. For instance, pre-Diwali, if we see a gradual return of audience engagement in non-Hindi theatres, starting from a movie like Adipurush. If this trend continuous and we overcome the challenges and negativity surrounding cinema that existed four months ago, we can enter a steady state scenario. In such a scenario, during the festive season in Q3, which traditionally sees a significant uptick in our ad revenue, we can expect better allocation and increased revenue. Therefore, it becomes crucial to have a consistent supply of movies that perform well at the box office.
- Nitin Gandhi:** Any comments on reducing your expense or having some control by converting minimum guarantee to some high variable?
- Ashish Malushte:** Well, we have two types of expenses: advertisement-related expenses and non-advertisement related expenses. If we compare our numbers with pre-COVID levels, our SG&A expenses have seen a reduction due to extensive efforts during COVID and post-COVID. Our expenses have gone down from Rs. 92 crores to Rs. 77 crores. There is a saving of Rs.14-15 crores which is about 17-18% and almost 70-80% of that is permanent. So we have exercised control over expenses in that aspect.
- Regarding advertisement related expenses, we believe that there is a good opportunity to increase the overall revenue. However, at that point in time, transitioning to a high variable cost structure solely for the purpose of reducing costs or increasing short-term margins in the next 1 or 2 quarters would have a negative impact in the long run. For example, if today the theatre is happy receiving a certain minimum guarantee and tomorrow and if we were to move to 70% ad share, we would constantly lose that 70% as soon as we start generating decent revenue. Therefore, moving to high variable is not the ideal solution. The solution is to make sure that the ad revenues keep going up, which is what you're seeing the trend for last 2-3 quarters.
- Moderator:** Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

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