



**UFO Moviez India Limited  
Q1FY24 Earnings Conference Call**

**August 01, 2023**



**MANAGEMENT:**

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**Moderator:** Ladies and gentlemen, good day, and welcome to the UFO Moviez India Limited Q1FY24 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 Q1FY24 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 Q1FY24 earnings conference call.

Q1FY24 commenced with movies like Bholaa and Dasara (released on 30th March). While there was no major new releases for the first two weeks of April, the later part of the month had seen some big-budget Hindi movie releases like Kisi Ka Bhai Kisi Ki Jaan and PS 2. Followed by the sleeper Hit – The Kerala Story, Zara Hatke Zara Bachke and other significant movies like Transformers, The Flash, Adipurush, and Satya Prem Ki Katha in the subsequent months.

Throughout the quarter, even while we observed the signs of comeback for Hindi Movies, regional movies like Bushirt T-shirt (Gujarati), Sri Raghupati (Assamese), Carry on Jatta 3 (Punjabi) and Baipan Bhaari Deva (Marathi) continued to exhibit healthy performance.

June proved to be a standout month for our business, with more film releases contributing to the best month for both theatrical and advertisement revenue in the quarter. Moreover, corporate advertising marked its best quarter since the post-pandemic period, although the underperformance of certain tent pole films, such as "Bholaa," "Kisi Ka Bhai Kisi Ki Jaan," and "Adipurush," impacted advertisement revenue. Additionally, couple of big films like "Jawaan" and "Maidaan" got pushed forward, further affecting the advertisement revenues for the quarter.

On the government advertisement front, we saw some traction in the advertisement revenue from Caravan with one government campaign and one corporate campaign in Assam and Maharashtra. There are still some constraints in the government advertisement business, however, we are happy to say that our mobile talkies venture, Caravan, has executed a rate contract agreement for empanelment with the Central Bureau of Communications, Ministry of Information and Broadcasting. This was a much-awaited development which got delayed during the pandemic and we expect business under this category going forward.

Now, turning to the headline numbers for the quarter ended June 30, 2023, our consolidated revenue stood at ₹853 million, compared to ₹884 million in Q4FY23 and ₹906 million in Q1FY23. EBITDA for Q1FY24 was ₹163 million, a significant improvement compared to an EBITDA of ₹114 million in Q4FY23 and ₹98 million in Q1FY23. We are happy to share that we have achieved profit after tax for the first time since Q4FY20, with a PAT of ₹25 million in Q1FY24, compared to a loss of ₹11 million in Q4FY23 and a loss of ₹25 million in Q1FY23.

Regarding our consolidated funds position, the balance at the end of the quarter stood at Rs. 808 million as of 30th June 2023. After considering outstanding debt, the company continues to maintain a net cash positive position as of June 30, 2023.

The strategic implementation of cost optimization measures has significantly improved our financial performance. Moreover, as we step into Q2FY24 with movies like Mission Impossible, Barbie, Oppenheimer, and Rocky and Rani Ki Prem Kahani, coupled with the recent

announcements of proposed strategic joint ventures with Qube Cinema Technologies Pvt. Ltd. and an exciting line-up of upcoming releases such as Jailer, Gadar 2, King of Kotha, Jawaan, Sri, and Salaar, we are confident about maintaining our upward trajectory in the coming quarters.

Thank you for joining us today, and now I would like to open the floor to take your questions. My colleague, Mr. Ashish Malushte, CFO and I are looking forward to a productive and insightful discussion ahead.

Thank you.

- Moderator:** First question is from Rahil Shah from Crown Capital. Please go ahead.
- Rahil Shah:** First of all, congratulations on achieving a positive profit after tax! My question is regarding your outlook on overall revenue and margins going forward. So, how do you perceive the year ahead, considering you mentioned continuing on a positive trajectory, could you provide insights on what one can expect in terms of growth and the margins for the entire year?
- Rajesh Mishra:** So, as I said, we remain optimistic about the future, considering the lineup of films, and the improving sentiments around the film releases. Lately, we have seen audiences coming back to the cinema with content-driven films such as 'Zara Hatke Zara Bachke' and 'Satya Prem Ki Katha'. Even the latest release, 'Rocky Aur Rani Ki Prem Kahani,' has received good reviews and Hollywood films like 'Oppenheimer,' 'Barbie,' and 'Mission: Impossible' are also gaining significant traction. So, overall this is a good news for the industry as it reflects audience's desire to return to cinemas. The success of these films directly impacts our distributor revenue, and advertisement revenues, making it a key driving force for us. With this in mind, we remain optimistic about the future.
- Rahil Shah:** Is it safe to say, given these new films ahead and the response you're already getting, that you will be delivering a similar kind of performance as you did in 2023 over 2022? So, can we expect that kind of jump that you saw last year?
- Rajesh Mishra:** Yes, to a large extent, we should be in a good position to grow the company's business. Our business is largely content driven, but the good part is that the content lineup is very well positioned in the second and third quarters, which are traditionally strong quarters for the business and we expect to have good performance during this period unless there is some unexpected surprises in the market.
- Rahil Shah:** Historically, the margins have been in double-digits. However, due to COVID and other factors, we witnessed a temporary downturn recently, with single digit margins last year. Looking forward, Can we anticipate the margins to return to double-digits or even reach mid-teens?
- Ashish Malushte:** Structurally, there have been no alterations to the margins, and as we gradually regain momentum towards pre-COVID levels, we anticipate margins to slowly return to their pre-COVID state. To explain briefly, our margins primarily benefit from incremental advertisement revenue, which contributes to over 50% to 60% EBITDA through PBT.

This is just first quarter where the performance is relatively back on track. If you compare this year's performance to the pre-COVID period, you will notice that all revenue and corresponding cost elements will show similar trends, and we do not anticipate a significant deviation in margins. However, to restore margins to pre-COVID levels, our primary focus is on regaining advertisement revenues to their pre-COVID levels. Given the optimistic sentiment surrounding the revival of movies in the Hindi belt, similar to the growth observed in the southern market over the past year, we hold an optimistic view. We anticipate that advertisers in the northern market will soon turn more positive towards our network, as well as digital cinema networks. This would lead to increased ad revenue, subsequently boosting our overall revenues and bringing our margins back on track.

- Moderator:** Thank you. Next question comes from the Devarsh Vakil from HDFC. Please go ahead.
- Devarsh Vakil:** In the opening commentary, it was mentioned that we have entered into a rate contract for our Caravan vehicle. Could you provide more details about it? Is it a confirmed order or a contract that agents will use when planning campaigns, thus generating advertising revenue for us?
- Also, I would appreciate an update on the status of government advertisement. Previously, it was at approximately 30% of revenues, but in the last quarter, it has come to 18%. So, is there any traction there? Any comments or insights would be helpful.
- Rajesh Mishra:** Our government revenue is derived from three main sources: central government, state government, and public sector undertakings. As mentioned, the central government has significantly reduced its ad spends, as stated in the Lok Sabha. However, the state governments across the country have shown an active engagement in advertising and we have observed upward trends with public sector undertakings too.
- Regarding our Caravan business, we have been involved in it previously. However, what had been missing was the empanelment of this media by the Central Bureau of Communication (CBC). This empanelment holds significant importance as the CBC conducts evaluations of the medium, establishes deliverables, and oversees the tendering and price-finding process. Once completed, the CBC enters into a rate contract with vendors, ensuring business at predetermined rates. Although this is not an order we have received, it proves invaluable for future procurement endeavors from central, state, or other entities since the government has already defined the rates and outlined the deliverables, eliminating the need for further discussions.
- In earlier stages of cinema business, we had to get empaneled with the DAVP (now the Central Bureau of Communication). However, once the rate is finalized, it is followed by the state bodies, government entities, and others. This stage of empanelment was already at an advanced level before the COVID period. However, the pandemic brought about significant changes in priorities, resulting in cinema closures and other disruptions. But now we have successfully secured this rate contract and that will help to procure business going forward from central, state, and PSU entities.
- Devarsh Vakil:** That is helpful. So, suppose CBC comes out with some particular campaign, would we also be entitled to a certain portion of that campaign to be executed on these vehicles? And do we need to make any CapEx to get them ready, or can we utilize these vehicles as they are now, once an order comes to us?
- Ashish Malushte:** Our vehicles are well-prepared and in place. So, whenever business comes through CBC (previously known as DAVP), once it gets elevated, allocation is done to various players, and we are among them, being one of the larger players. So, once the business comes, no incremental Capital Expenditure (CapEx) is required. Instead, we only need to incur incremental Operating Expenses (OpEx).
- During this quarter, this caravan generated a significant revenue for the first time after COVID, amounting to over INR 1 crore. This was before the empanelment was officially completed. Prior the empanelment, efforts were required to secure the business, both on our end and internally within CBC. However, now that the entire medium of Caravan across the country, has been approved by CBC, their internal efforts to allocate business to us are significantly reduced. The only incremental expense we have to consider is related to route allocation. For instance, in this case, we were given three states and two locations every day, forming a cycle of approximately 15 days with 30 locations.
- Our Operating Expenses (OpEx) come into play when we finalize the route and progress with the allocated business. However, there is no incremental Capital Expenditure (CapEx) to incur. This is the aspect we eagerly awaited, as mentioned in the opening remarks, and we are delighted to

have finally obtained the empanelment. As a quick reference, UFO's digital cinema empanelment was accomplished in 2008.

**Devarsh Vakil:** So, compared to our in-cinema advertisement, this business tends to offer better margins for us, even though it is relatively small at present?

**Ashish Malushte:** As mentioned earlier, digital cinema typically yields anywhere between 55-65% incremental revenue, contributing to EBITDA to PBT margin. Similarly, this particular business is expected to fall within the same range, approximately between 45-60%.

**Rajesh Mishra:** In digital cinema, there are no operating expenses involved in running the advertisements. However, in this case, with the vans, there are operational costs associated with their movement and management, which includes manpower requirements.

**Devarsh Vakil:** Could you kindly provide the current number of vans that are operational and running with us?

**Rajesh Mishra:** Currently, due to the monsoon season, our vans are not running. Instead, we utilize this time to conduct routine maintenance and services to ensure vans are in optimal condition. Once the monsoon period concludes, we expect to get business on this. The Caravan business is affected during these three months since it is an outdoor medium and vulnerable to the impacts of rains.

**Devarsh Vakil:** I understand, sir. As and when, after the rains, when another campaign comes, how many vans do we have that we will be able to put to use for this business?

**Ashish Malushte:** In this quarter, we generated INR 1.6 crores of revenue, mainly during the month of April and partly in May. During this period, we utilized 13 vans out of the 100 vans that we have.

**Moderator:** The next question is from Aditya Sen from Robo Capital. Please go ahead.

**Aditya Sen:** We observed a significant increase of 51% in the average number of minutes sold quarter on quarter. However, during the same period, the ad revenue per screen only increased by approximately 24%. We were unable to figure out this gap. So, can you please help here?

**Ashish Malushte:** Despite the challenges we faced during the exit from the COVID period, especially considering our company's dominant presence in the northern market, as opposed to the southern market, and the sentiments surrounding movies in the northern part of India last year, we managed to recover quickly. Comparing our current performance to pre-COVID levels in Q1FY20, we were at an average of 4.6 minutes sold per show per screen, and in Q1FY24 we are at 4.2 minutes, indicating a 91% recovery rate. While there is a drop in realization, primarily due to a strategic decision we made during the recovery phase.

As we exited the COVID period and aimed to revitalize the theatrical and advertisement businesses, we chose not to hold onto higher prices. Instead, we prioritized getting advertisers' attention back to our medium. The same was the case with other players in digital cinema too. Despite the advertisement market in India being worth over INR 1 lakh crore, the in-cinema advertisement spending, even pre-COVID, did not exceed INR 700 crores. During the COVID period, the in-cinema advertising market dropped but the overall advertising market grew.

So, we consciously made efforts to reintegrate ourselves into advertisers' planning processes. This approach helped us sustain their spending on cinema advertising even during the challenging years when in-cinema experiences were limited. Additionally, our commitment to staying re-engaged with advertisers required us to adjust our pricing strategies. This approach may also be observed among other listed players in the industry. Hence, the apparent drop in overall realization can be attributed solely to the reduction in rates.

However, with the sentiments in the market now back on track and our volumes steadily increasing, the rates will gradually recover as well.

**Aditya Sen:** Considering the rates need to recover, what will be the expected pace of this recovery? Our pre-COVID revenue stood at INR 150 crores. So, will we be inching closer towards that number?

**Ashish Malushte:** We have always refrained from providing specific guidance on revenue or profitability, even in the pre-COVID period, and would like to continue that even now. However, it's worth noting that things are really looking better than last year, particularly in terms of sentiment trends.

The positive sentiment has already led to a notable improvement in our theatrical business, but we must wait and observe whether the same pace or even faster growth will be witnessed in advertisement revenue. Nevertheless, we can confidently state that our position is much stronger now compared to the last year on this front.

**Aditya Sen:** Pre-COVID, the advertisement share used to be in the range of 30-35%, which went up to 60% in FY20 and now, we've noticed it declining. So, how the trend will look like in coming years, will it return to the 30-35% range, or is it likely to stabilize at its current level?

**Ashish Malushte:** The advertisement share may appear like a revenue-sharing model, but it includes a minimum guarantee component. This minimum guarantee ensures that a fixed cost is paid to the theater regardless of the actual revenue generated. So, even if the revenue is zero, the minimum guaranteed payout is still incurred.

Currently, the advertisement share, expressed as a percentage of revenue, stands at around 48% for this quarter. In the pre-COVID period, it used to be in the range of 30% to 35%. As revenue starts recovering and reaches pre-COVID levels, the minimum guaranteed payment will remain the same for a considerable time until a threshold revenue level is surpassed. For instance, let's consider a theater with a minimum guarantee of INR 10,000 and a sharing percentage of 25%. As long as the revenue falls between INR 10,000 and INR 40,000, the sharing percentage will be relatively high.

Once the threshold revenue of INR 40,000 is exceeded in this example, the sharing will be at 25%. So, to answer your question, the advertisement sharing percentage should generally decrease as revenue increases. However, there might be some variations, and it may not exactly return to the pre-COVID level of 30% to 32%. It could be slightly higher due to the higher minimum guarantees offered to certain theaters, with an anticipation that these theatres will generate better ad revenue.

**Moderator:** Next question comes from Amit Mehendale from Robo Capital. Please go ahead.

**Amit Mehendale:** Could you provide an update on the expected operational timeline for the Joint Venture (JV) with Qube Cinema? Additionally, it would be great if you could explain the overall strategy for the JV going forward.

**Rajesh Mishra:** So, we initiated two joint ventures - one for mastering and content delivery and the other for advertising. The rationale behind these ventures lies in the similarity between UFO and Qube's businesses, making it beneficial to optimize costs and operations in mastering and content delivery through a joint effort. This collaboration will not only benefit UFO and Qube but will also streamline the industry as they now need to interact with a single entity instead of multiple ones.

As for advertising, both UFO and Qube are currently selling their advertising independently. However, by pooling advertising inventory in a joint venture, we can provide advertisers with a much broader reach. Large advertisers, such as FMCG companies, seek greater reach, and the joint venture can fulfill this requirement effectively. Also, advertising-focused joint venture will also prioritize various initiatives, such as evangelizing the medium, enhancing the advertiser experience, offering post-evaluation exercises, providing data-guided advice, and helping advertisers to maximize the impact of their content advertisements.

And this, in-turn will definitely lead to increase in the volumes, as opposed to what the individual companies would do on a standalone basis. Ultimately, these ventures are aimed at revenue optimization in advertising and cost optimization in mastering, which will improve our EBITDA positions and enhance our focus on these key areas.

**Amit Mehendale:** So, on the advertising front, the joint venture will not only increase the volume but will also lead to improved pricing? As I understand, Qube and UFO might have been competitors before the JV, which could have resulted in price competition or discounts. Can we expect such practices to stop now? Is this a fair assumption to make?

**Rajesh Mishra:** To clarify, each of us was selling our own screens independently. So, there was no significant competition between us to the extent that an advertiser was restricted from approaching any particular screen. However, through the joint venture, we aim to offer better value proposition to advertisers. Which in turn is expected to result in better returns for advertisers and will generate better revenues for the company.

**Amit Mehendale:** On the volume side, there might be some clients unique to UFO and others exclusive to Qube. Therefore, with the JV catering to both sets of clients, the volumes are expected to effectively add up in a similar manner. Is my understanding correct in this regard?

**Rajesh Mishra:** That is a valid observation, and it presents an upside for the Joint Venture. If a client was exclusively on the UFO network. Now, there is no reason why they cannot be approached for the combined network, as the Joint Venture's mandate is to sell the combined network. Consequently, we are optimistic that we will leverage each other's strengths and relationships to optimize revenues for both companies.

In fact, this could be considered one of low hanging fruits for the JV once it becomes operational.

**Amit Mehendale:** Could you please clarify when the JV is expected to become operational and revenue will start kicking in? By which quarter do you anticipate the JV to begin its operations on the ground?

**Rajesh Mishra:** Currently, there are certain statutory approvals and company formations required, and we plan to approach the shareholders in the EGM scheduled on the 8<sup>th</sup> August. These processes might take around 30 to 45 days before the JVs can become operational. Having said that, the impact of the JVs will probably be visible in the second half of the year.

**Moderator:** Next question is from Vaibhav Badjatya from Honesty and Integrity Investments. Please go ahead.

**Vaibhav Badjatya:** Are the advertising rates back to pre-COVID levels?

**Ashish Malushte:** The rates are not yet back to pre-COVID levels and the reason for the drop in rates was to regain advertisers' attention to this medium, as mentioned earlier. Also, with the positive sentiment returning in the northern part of India, especially around movies, advertisers are likely to continue their spending. This, in turn, should provide an opportunity to push the rates higher gradually. The special discounts or lower rates offered immediately after the COVID period, will be slowly brought up as the overall market sentiment improves and the demand for advertising space increases.

**Vaibhav Badjatya:** How the Joint Venture will impact clients seeking advertising on this medium and how this JV will enhance the volume? After all, if someone wanted advertising on the north side, they would have come to you directly.

**Rajesh Mishra:** So, when both teams are combined, our on-the-ground presence and the collective experience of selling cinema accumulated over the years in both companies come together. Cinema, as an advertising medium, operates at various levels - national, state, and hyperlocal in cities. Alongside



national advertisers, there is a substantial volume of retail advertisers targeting specific districts or states.

Such advertisers would not prefer television as a medium due to the extensive reach and potential expenditure. Whereas cinemas offer a more targeted value proposition for these brands. Hence, the increased team size, increased focus, extensive database research, advanced analytics, improved post evaluations, and enhanced guidance provided to advertisers, helps them to execute successful campaigns and that will drive up the volumes.

**Vaibhav Badjatya:** Was there any flexibility for advertisers to choose screens prior to JV? And after the JV, does a unified network offers flexibility to select specific screens, tailoring campaigns effectively for desired audiences?

**Ashish Malushte:** Indeed, the advertiser will always have the freedom to decide where to advertise, as they know best how to achieve visibility for their products or services. However, with JV's combined network, the overall offering becomes stronger and advertisers pay more attention to the proposal.

Addressing the query of whether an advertiser can select specific screens, this choice naturally rests with them. The joint venture (JV) presents options: advertisers can opt for the entire network or choose a subset. In this dynamic, the JV takes on the task of illustrating the advantages of expanding the scope. For instance, if an advertiser initially chooses 20 screens out of 100, the JV can strategically demonstrate how expanding to 60 screens could yield even more impactful results. In the past, separate sales teams might have competed, but now, with the JV, they work together cohesively, speaking one language for the combined network's greater benefit.

**Vaibhav Badjatya:** Understood. Regarding advertising rates, will this JV have any impact on them? Since you mentioned screen-by-screen advertising and advertiser choice, will the rates be affected by the JV or remain unaffected?

**Ashish Malushte:** As discussed in a previous question, whether there's a Joint Venture or not, the pricing has a tendency to increase as the volume of any product rises due to increased demand. With the JV in place, systematic efforts will be made to drive up the volume. As more minutes are sold, the available inventory becomes finite, resulting in gradual increase in pricing. Currently, this is relevant since our prices have been adjusted to address the post-COVID scenario.

**Vaibhav Badjatya:** I would like to clarify that some screens might be in common areas for both Qube and us, but their rates could be different. Now, if an advertiser approaches the JV and wishes to advertise on both screens in the same area, will there be two different rates or one unified rate?

**Rajesh Mishra:** Typically, rates are determined based on factors such as the screen's quality, catchment area, and the type of audience it attracts. There's no one-size-fits-all formula; advertisers consider these factors and choose accordingly.

**Vaibhav Badjatya:** So, there won't be any standardization of rates for screens in similar locations?

**Rajesh Mishra:** Even if there is a generalization of rates, the advertiser can plug in their own weightage. For instance, if they want to advertise in one city and there are five A-plus category screens along with some lower category screens, they can give weightage based on the quality of screens in their chosen product mix.

**Vaibhav Badjatya:** Can you provide insights into the JV's numbers and Qube's current realization per screen and ad rates?

**Ashish Malushte:** Broadly speaking, you can assume that both Qube and UFO are operating at a similar level on a consolidated network basis. Hence, their realization per screen would be comparable to ours for both corporate and government segments. Last year, Qube might have had a better realization in



the corporate segment due to exceptional movie performances in the South, even surpassing pre-COVID levels.

In a normalized scenario, considering both networks' solid and professional setups with a substantial presence in the country for over a decade, the realization per spot or revenue per screen at a network level should remain relatively same. However, we'll need to allow some time for the JV to establish itself and operate fully. Over a few quarters, we can analyze the JV's impact on both volume and rates to better understand the dynamics.

**Moderator:** Next question comes from Niteen S Dharmawat from Aurum Capital. Please go ahead.

**Niteen Dharmawat:** Could you please provide us with the split among three sources of revenue from government for both the pre-COVID period and the current period?

**Ashish Malushte:** The revenue from the Government segment, which comprises Central Government, State Government, and PSU, was INR 51 crores in the pre-COVID FY20. The split for that year was INR 20 crores from the Central government, INR 18 crores from State Government, and INR 13 crores from PSU. Central and State governments were contributing roughly 40% each.

However, in FY19, the revenue from the overall Government segment was much higher at INR 112 crores, with INR 80 crores coming from the central government, accounting for approximately 72% of the total revenue. In FY18, revenue from government was even higher at INR 116 crores.

Now, in Q1 of the current financial year, the revenue from the Government segment is approximately INR 3.8 crores. Out of this, INR 3.7 crores has come from the state government, with the central government contributing only INR 10 lakhs. This significant shift in revenue is notable.

Despite the challenges of the COVID pandemic, our teams have been able to generate meaningful revenue from the state government sub-segment. If we annualize this figure, it amounts to close to INR 14 crores, whereas we recorded INR 18 crores in FY20 and INR 16 crores in FY19 from this segment.

I hope this provides you with a clear understanding, and since I have shared the absolute numbers, the percentages will be evident as well.

**Niteen Dharmawat:** This is helpful. Are you observing any specific trend in government revenue, particularly from the central government? Currently, cinema revenue from the central government might be restricted, but is this restriction applicable to other advertising mediums as well?

**Rajesh Mishra:** As mentioned earlier, the central government has reduced its advertising spend significantly from almost INR 1,150 crores to around INR 115 crores, around 90% drop, across all advertising mediums, including cinema, television, and print. This decision is at the government level, and while we continue to appeal and present our campaigns, the final call rests with them. We remain hopeful that they will resume advertising in this area, but we cannot comment on that.

**Ashish Malushte:** The positive aspect here is that the reduction in spending applies to all mediums, and digital cinema is not singled out. When the government resumes its advertising expenditure, which we anticipate will happen eventually, the entire digital cinema industry, including our company, will benefit from it.

**Moderator:** Next question comes from Karan Mehta from Nirzar Securities. Please go ahead.

**Karan Mehta:** Could you provide a broad range of cost structure benefits and the expected impact on profitability growth resulting from the Joint Venture with Qube? We have observed significant improvement in profitability, driven by improvement in cost structure. And in this regard, all our costs have

decreased, especially VPFs has decreased QoQ and YoY. Could you shed light on the sustainability of this favorable trend? Additionally, are there upcoming strategies for further cost reduction?

**Ashish Malushte:** Regarding the Joint Venture, I would like to mention that earlier in the discussion, Mr. Amit Mehendale had asked a similar question, and the benefits and volume potential of the JV were extensively discussed, I would request you to refer to the earnings call transcript for the detailed information.

Regarding the cost aspect of the post-JV scenario, there are two JVs - one for advertising and the other for content processing. In the advertising JV, cost optimization is not a primary driver; costs would naturally increase as revenues go up. The focus here is on revenue optimization and growth. On the other hand, in the content JV, there were duplications between the companies, and over time, cost optimizations on infrastructure and assets will occur. However, cost savings might not be visible immediately in the next quarter.

While the cost optimization is not significantly impactful in the overall context of our balance sheet, it remains critical in the current scenario. Our profitability in the current quarter has been supported by sustainable cost reductions achieved over the last 18 to 21 months without compromising the organization's operations as it was coming back in pre-COVID business growth scenario.

**Karan Mehta:** is VPF sharing is sustainable.

**Ashish Malushte:** It is sustainable. However, the reduction in VPF sharing is due to the decrease in VPF revenue. While the sharing percentage remains almost the same, when the absolute revenue goes down, the sharing amount also decreases. So, this particular cost reduction in the VPF sharing expense does not significantly contribute to an increase in profitability, as along with the VPF sharing, even VPF revenue decreased.

**Moderator:** Next in line is Harsh Patel from Alpha Alternates. Please go ahead.

**Harsh Patel:** The ongoing strike in Hollywood, which might affect the releases like Oppenheimer, Barbie, and Mission: Impossible next year. What is your assessment of this situation?

**Rajesh Mishra:** Indeed, the ongoing Hollywood strike is a temporary challenge, but it forms only about 10-15% of high-end multiplex content. The majority, 85-90%, relies on local and regional content, which remains steady. While the delay in Hollywood content may impact theater footfalls to some extent, UFO do not generate VPF Revenue from Hollywood content. It is not a major concern as the local industry is robust and can fill in the gaps.

Moreover, we have noticed a positive trend of south content migrating to the north, which significantly boosts the film availability. The Hindi Film Industry produces around 225 to 250 films annually, whereas the southern four languages collectively produce around 900 films. Even if we consider a conservative hit rate of 1%, it still provides a substantial number of successful tent pole films that become available for the entire country. And again the Hollywood strike has reached a point that demands solution, so we do not see it lasting for a long time.

**Ashish Malushte:** At the same time, it is important to acknowledge a point that as a UFO network, we do not receive CDC or VPF revenue when a Hollywood studio film gets released on our network. Consequently, an increased presence of such films may impact our CDC revenue line to some extent, albeit partially compensated by higher advertisement revenue due to increased footfalls. However, in place of Hollywood film, if any regional or a Hindi film is running on our network, we benefit from both VPF/CDC revenue and advertisement revenue simultaneously.

**Harsh Patel:** So, if I was a high-end multiplex owner, I would be worried about the strike, rather than UFO worrying about it.

- Moderator:** Next question comes from Dhwani Desai from Turtle Capital. Please go ahead.
- Dhwani Desai:** My first question is regarding the historical performance. Pre-COVID, margins used to be around 30% and plus. However, due to the significant reduction in government advertising, reaching that level seems challenging at the moment. Considering the cost-saving measures we've implemented, could you elaborate on the feasibility of returning to a 30% EBITDA level, especially with the uncertainty around government advertisement making a comeback?
- Ashish Malushte:** Yes, it is possible to go back to the pre-COVID level of profitability even if there is no government advertisement revenue, but it would take time. In such a scenario, the loss on account of not receiving central government revenue needs to be compensated by other segments, such as corporate, state government, PSUs, or the recently empaneled Caravan. We have achieved margins in excess of 30% in the past, but it's important not to sound excessively bullish on the margin front.
- The key driver of margins is ad revenue, and the temporary pause in central government spending is a concern for us in restoring margins to pre-COVID levels or FY19 levels. We remain hopeful that they will resume spending, but if not, we might need a little longer for the business to reach those levels again.
- Dhwani Desai:** During pre-COVID, the entire theater advertising industry was around INR 700 crores. So, between you and Qube what would be the market share you would be commanding?
- Ashish Malushte:** As mentioned, out of that entire theater advertising industry of INR 700 crores, the key multiplexes were close to INR 350 crores pre-COVID, and the combined network of UFO and Qube would be around INR 250 crores. So, both of us put together would be close to 40% of this overall share. However, it's important to note that we do not intend to double our share from 40% to 80%. Instead, our focus is on the significant growth potential in the overall ad industry, which grew from INR 70,000 crores to INR 1,10,000 crores in 3.5 years, then naturally at least that much of growth could have been seen in our segment.
- Unfortunately, COVID impeded this growth significantly, leading to a temporary setback. However, the entire cinema industry is striving to recover and restore advertising revenue to the previous INR 700 crores mark, and even surpass it. We are hopeful to reclaim the pre-COVID share through collective efforts and strategic measures.
- Dhwani Desai:** Considering that the rates are quite sticky in media industry and it takes time for it to recoup. Does it mean that our volumes have to grow substantially higher? Let's say we are clocking approximately 4.5 minutes per screen per show. Is that number can go up substantially? How will it move significantly higher than INR 700 crore?
- Ashish Malushte:** You have made a very important point that whether the rates would come back. But for the second part of your question, we will have difference of opinion. For example, IPL (not comparing our business with IPL) and IPL rates, as an impact medium would never see this kind of problem. They would keep going up and they have been going up. So, it was a strategic decision, taken by all players in the industry independently to drop the rates in order to regain market share and attract advertisers during challenging times. As the footfalls were lower in the theaters and the advertisers had a very negative anticipation about the footfalls. Now, with the change in perception and improvement in footfalls, advertisers are understanding the impact of cinema as an advertising medium. Therefore, returning to pre-COVID rates is not expected to be a significant challenge.
- However, the process of reaching those rates may take some time and involve gradual adjustments as the industry recovers. As an impact medium, cinema is valued by advertisers, and we can anticipate a positive trajectory for rates going forward. While achieving pre-COVID rates is feasible, how it evolves beyond that will be a subject of discussion as the JV becomes fully operational, possibly in the next couple of quarters or even a year down the line.

**Moderator:** Thank you. That would be the last question for the day. Now, I hand over the floor to Mr. Tushar for closing comments.

**Tushar Pendharkar:** Thank you. On behalf of Ventura Securities Limited, we would like to thank the management of UFO Moviez and the participants. Good day.

**Moderator:** Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation.

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