November 11, 2022

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
Fax: 022 – 2272 3121
BSE Scrip Code: 539141

To,
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (East), Mumbai-
400 051
Fax : 022- 2659 8237/ 38
NSE Symbol: UFO

Dear Sir/ Ma'am,

Sub: Transcript for the Q2&H1FY23 Earnings Conference Call held on November 03, 2022

In continuation to our letter dated October 29, 2022 and November 03, 2022 and pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Part A of Schedule III of the Regulation, please find attached the Transcript of Earnings Conference Call held on Thursday, November 03, 2022, at 12:00 p.m. for discussing the Company's Q2&H1FY23 financial results.

The above information is also available on the website of the Company: www.ufomoviez.com

Request you to take it on record and disseminate it on your website.

Thanking you.

Yours faithfully,
For **UFO Moviez India Limited**
Kavita Bhavesh Thadeshwar
Digitally signed by Kavita Bhavesh Thadeshwar
Date: 2022.11.11 13:19:26 +05'30'
Kavita Thadeshwar
Company Secretary

Encl.: a/a

UFO Moviez India Limited
Q2&H1FY23 Earnings Conference Call

November 03, 2022

MANAGEMENT:

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

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

ANALYST:

Mr. AASIM BHARDE – DAM CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to the UFO Moviez India Limited Q2&H1FY23 earnings conference call hosted by DAM Capital Advisors 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 now hand the conference over to Mr. Aasim Bharde from Dam Capital. Thank you and over to you, Sir.

Aasim Bharde: Thanks Pelsia. On behalf of DAM Capital Advisors, I welcome you all to the Q2&H1FY23 earnings call of UFO Moviez India Limited. We have with us the management represented by Mr. Rajesh Mishra, Executive Director and Group CEO of the company, and Mr. Ashish Malushte, the CFO of the company. I would now like to hand over the call to the management for opening remarks after which we can open the floor for Q&A. Thank you and over to you Sir.

Rajesh Mishra: Thank you, Aasim. Greetings everyone and thank you all for joining our Q2&H1FY23 earnings call.

Let me start with the updates and highlights.

Business continued to operate without any COVID related challenges in Q2FY23. A total of 522 movies (comprising an astounding 40 films per week in all languages and versions) were released on our network during this quarter and a total of 968 movies were released in H1FY23. The number of big-budget movies released in Q2 was higher than in Q1. However, the performance of these big-budget movies was below expectations and comparatively lower than the movies released in Q1. The trend in the performance of movies that we are observing post-pandemic indicates the importance of the quality of content for the movie business to flourish. Movies with only the big star casts today are rarely enough to pullback audiences back to theatres, and even if they do, it is the story that will help the movie to run longer at the box office. This is what happened in Q2 with several big star cast movies, such as Shamshera, Laal Singh Chaddha, Raksha Bandhan, Ek Villain-Part 2, Liger, etc. did not perform as per expectation. The underperformance of these movies had a severe impact on the advertisement revenues of not just UFO but the industry as a whole. Advertisers restricted themselves to lower budget allocation for big-screen advertisements.

In Q2, we had only one successful Hindi movie and that was Brahmastra-Part 1, while from the South we had Vikrant Rona, Karthikeya 2, Sita Ramam, etc. Two other movies PS-1 and Kantara that released on 30th September have turned out to be blockbusters at the Box office. South movies have continued to appeal to the larger audiences Pan-India and that we believe is a healthy trend as it will lead to an expansion of the Indian Box Office market. In addition, with the increase in the number of movies releasing pan-India, our CDC revenue stands to benefit. The same is visible from our Quarter on Quarter growth in CDC (including VPF) revenue, which has grown by 14% from Rs. 284 mn in Q1FY23 to Rs.323 mn in Q2FY23. In terms of recovery, CDC revenue has recovered to pre-pandemic levels.

On advertisement performance, our overall advertisement revenues have declined by 25% from Rs. 178mn in Q1FY23 to Rs. 133mn in Q2FY23 and the major impact is seen on the corporate advt. vertical because of the reasons stated above. Though Government advt. revenue has been similar to Q1FY23, government not increasing advt. spends continues to be an area of concern.

Coming to the distribution business, in our Q1 earnings call, we stated that this business has started to shape up well. We are happy to inform you that we continue to maintain the same stance in Q2 as well. During the quarter, UFO distributed 14 movies, majority of which were South movies that we distributed in the North market. Rocketry: The Nambi Effect that released on 1st July was distributed by us pan-India except for Tamil Nadu. Another big movie, Karthikeya 2 was distributed by us in Q2 in the North circuit excluding Orissa. We believe as more of these movies find a bigger audience in the Non-South Market, our business vertical will see a good ramp-up and start contributing modestly. I would like to reiterate that in our current distribution business model there is near zero content risk.

Coming to the headline numbers for the quarter and half year ended September 30, 2022.

Please note as FY21 and FY22 were the washout year due to the pandemic induced restrictions we have compared our performance with pre-pandemic period that is Q2FY20 and H1FY20 for better representation of recovery in the business.

Consolidated Revenues stood at ₹1,078 Mn in Q2FY23 as compared to ₹1,251 Mn in Q2FY20 a recovery of 86%. Business EBITDA i.e. EBITDA excluding one-time impairment provisioning stood at ₹54 Mn as compared to ₹271 Mn in Q2FY20. We had taken a one-time provisioning of ₹29 mn in this quarter on our investment in CDPL. Taking the impact of this one-time provisioning, our reported EBITDA stood at ₹25 Mn. Loss at PAT level for the quarter stood at ₹92 Mn as compared with ₹35 Mn in Q2FY20.

On half-yearly performance, the Consolidated Revenues stood at ₹1,984 Mn as compared with ₹2,519 Mn in H1FY20 a recovery of 79%. Business EBITDA i.e. EBITDA excluding one-time impairment provisioning stood at ₹152 Mn as compared to ₹559 Mn in H1FY20. Taking the impact of this one-time provisioning in Q2FY23 our reported EBITDA stood at ₹123 Mn. Loss at PAT level stood at ₹117 Mn as compared to a profit of ₹46 Mn in H1FY20.

As far as consolidated funds position is concerned, the balance at the end of the quarter stood at ₹1,060 Mn. On the debt front, as of September 30, 2022, the Company is Net Debt free with Net cash of ₹227 Mn.

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.

Moderator: The first question is from the line of Saral Seth from Indsec Securities.

Saral Seth: Since in last six months we have not really seen the usual box office performance like the pre-pandemic, how is the movie business looking to you over the medium to long term?

Rajesh Mishra: In Q2, films have performed significantly lower especially in the Hindi speaking market, which has impacted our business. However, the content pipeline in Q3FY23 and Q4FY23 looks strong. Movies like Drishyam 2, Bhediya, Avatar, Panther, Cirkus of Ranveer Singh, Kisi Ka Bhai Kisi Ki Jaan of Salman Khan, and Adipurush have been lined up to release. Adipurush might get postponed but we have very good hope from these line-up.

Saral Seth: In the last earnings call, you had mentioned that the distribution business is shaping up very well, what is the overall outlook.

Rajesh Mishra: The distribution business is picking up really well. We are concentrating mostly on South and other regional films but primarily South films. This is because it is a very synergistic approach for our core business, as we are able to drive our CDC earnings and are able to provide a steady content pipeline to our own screens. I am happy to inform that we have released almost 66 films to date and in this quarter itself we have released 14 films, which is like releasing almost one film a week. We are seeing very good traction and the business has started to show decent profits though not that significant. However, this business will be very profitable on a standalone basis itself.

Saral Seth: When do you think we will be reaching pre-pandemic profitability or may be double-digit margins?

Rajesh Mishra: Primarily, we have three revenue streams: rental from cinemas, CDC revenue, and advertisement revenue. While the rental and CDC revenues are back to normal i.e. around 96% of pre-pandemic levels, only the advertisement revenue is lagging in terms of recovery. This is primarily because of the Government advertising that has reduced significantly. They have reduced their overall spend but we expect that to revive. Corporate advertising is recovering slowly and I think Q3FY23 & Q4FY23 will be a better indicator of how we are going to shape up on this thing.

Saral Seth: What kind of revenue will help us to reach double-digit margins?

Ashish Malushte: Slightly different and more simplistic way to look at it is the difference in revenue before pre-COVID and at present is purely the advertisement revenue. If we see six months earlier when the business was just opening up, the bigger concern was whether the business would really come back because our industry was one of the last ones to come back after the pandemic. If the theaters open up, whether the content would start flowing and will it continue or not. Both of these questions has been answered in positivity. Now, in terms of performance comparison with pre-pandemic, revenues have recovered but EBITDA is still down by ₹22 crore as compared with pre-pandemic level. If you actually look at the advertisement margin, though the revenues have almost recovered, the advertisement margin is down by an equal amount, which is ₹22 crore as compared to a reduction of ₹24 crore of revenue. This indicates that, the moment our advertisement revenue recovers, we will not just achieve two-digit margin, but also will achieve the EBITDA level profitability of pre-COVID level.

Now, the challenges on advertisement has been primarily on the government spending, which we have been cautioning the market that they are not spending the way it was spending on digital cinema media during pre-COVID days. Secondly, a little bit of a disappointment for us is after a very good three months that is January to March when the movie business started coming back and after that unfortunately, there has been a series of movies that have not performed well. It is more like a sequential back-to-back disappointment and that has changed the positivity, which was there in the minds of the advertisers and who started re-allocating some of their budgets to in-cinema ad-medium. Unfortunately, we had back-to-back flops in Q1FY23 like Jersey, Heropanti 2, Samrat Prithviraj, Jug Jugg Jeeyo, etc. I wouldn't say those were flops, but they didn't really do well, the way they should have done. This continued in Q2FY23, when movies like Khuda Hafiz part 2, Shamshera, Ek Villain Part-2, did not do well. Then we had worst week when Lal Singh Chaddha and Raksha Bandhan also did not perform. It continued with Liger until the release of Brahmastra. This was a long stretch of about three months when the advertisers on the corporate side slowly started taking a break. It is not that they do not believe in this medium, but they are waiting for the audience to come back. It is more like a content quality issue because while Hindi movies have shown this kind of a performance, southern movies have really done well and in fact, southern dubbed movies have done well.

On your first question how you look at movie business, there is no negativity in our mind, but content quality probably should come up to the expectation of consumers and then people will start coming back. Now coming back to your question that you asked about double- digit growth in the margins, profitability would be achieved the moment advertisement comes back. It is relatively simple to analyze for an analyst, but difficult to answer in terms of how the recovery will be.

Saral Seth: Are we seeing any green shoots on the advertisement revenue or will it take some more time?

Ashish Malushte: The situation is slightly changing post the release of Brahmastra, and three and a half months of negative views in the minds of advertisers. Fortunately, Brahmastra came at a time when the festive season was around. This is slowly bringing the advertisers back and if some of these movies really start doing well, we will see these green shoots converting into revenues.

Rajesh Mishra: This is the industry level issue and advertising will follow the success of films. We have had a lean period, but that is not the way the industry will function forever. With the success of films, this will quickly ramp up again.

Saral Seth: Can you share some developments and your strategy on the OTT platform Zinglin and Plexigo?

Rajesh Mishra: We have not seen much traction on that front and we have significantly reduced our costs as well. We are working on a couple of projects, which when they fructify, we will definitely come back to the market about this, but right now it's on the backburner with very minimal costs.

Ashish Malushte: To add a point, when you say OTT, the way it can be perceived is that a company wanting to launch its own OTT brand and therefore it will entail investment in content and popularization of OTT. This means that it is a deep pocket game and I would like to clarify that this is not what we ever intended to be. We have pivoted from the initial phase into the current phase where we are trying to position it more like a white labeling solution for other OTT players.

Moderator: The next question is from the line of Aditya Sen from Robo Capital.

Aditya Sen: In Q2FY23, our cost stood at ₹105 crore, which is similar to pre-pandemic levels but our revenues are not. Why is the cost growing faster than the revenue?

Ashish Malushte: Can you repeat the numbers. You are seeing in Q2 the total cost, which is ₹105 crore, is exactly equal to you mentioned?

Aditya Sen: Similar to December’19 cost, that is ₹163 crore. The question is that the cost structure is back to the pre-pandemic, but why isn't the revenue scaling the same way?

Ashish Malushte: The total cost has gone up from ₹90 crore to ₹102 crore. We need to actually do a deep dive and differentiate between the direct costs, SG&A and manpower costs. First, if you see the SG&A and manpower cost, SG&A cost has still not reached that level and is still 20% lower. This is because of cost synergies or cost benefits or cost reduction drives that we initiated during pandemic and that is supporting us. Manpower cost has gone up because for three years we had not given raise to our employees.

The majority of increase that you would see is in direct costs, and even in direct cost, the increase will be more in cost of goods sold, which is a direct cost related to the sale of equipment and that cost has actually gone up. Whereas, the advertisement related direct costs has not reached the same level. On quarterly basis, it is lesser by ₹3 crore and on half-year basis, it is down by ₹10 crore. This is how the numbers pan out if you do a deeper dissection. Therefore, since the direct cost to advertisement is low, that is the same point he was trying to make. When the advertisement revenue goes up, these costs will also go up, but margins would go up significantly.

Moderator: The next question is from the line of Vipul Kumar Shah from Sumangal Investments.

Vipul Kumar Shah: What is our path to restoration of profitability, as we will appreciate that you had issued the shares in IPO at around more than ₹ 600 and investors lost 80% of the capital. Pardon me but I feel that ours is a broken business model, your comments please?

Rajesh Mishra: While it is true, that some films have not been performing well, but if you look at the all-India level, OTT impact should have been happening across the country also. We do not think that OTT is an issue as much as the quality of films that have turned up in this quarter. South films have done well and south audiences are coming to the theaters. North audiences also comes to the theaters provided the film is good and as seen during Brahmastra. Hence, I would not say it is a broken model. It is only dependent upon the quality of films that releases. Additionally, as I mentioned, of the three revenue streams, two are back to normal. Advertisement revenue is closely linked with the success of films and will recover as the quality films releases. This has been the scenario with other industry players also. With the improvement in the quality of content, the advertisement revenue will surely recover. We don't think there is a serious broken issue about this business as such.

Vipul Kumar Shah: In that case, you should be getting more advertisement in the Southern India as you are not facing any content problem there but that is also not happening.

Rajesh Mishra: It will happen. It's a growing trend and it will pick up there also. It takes time for the advertiser’s confidence to build up which was impacted by the pandemic and the failure of the films.

Vipul Kumar Shah: Why is government reluctant to spend in this media even when there financials are in good shape?

Rajesh Mishra: Government has reduced their advertising spend on all media. They have significantly reduced the spending by 70-80% and that is not in our control. Government advertising is driven by government policies. This is not something that we can go and pitch to them or procure the business by making a hard sell for our business. They were big advertisers on this media, but since they have reduced their spending, we cannot do much about it. Presently, our focus is more on the corporate advertisement and that is where we will see traction once the quality of films pick up.

Vipul Kumar Shah: What is this other revenue of ₹149 million for H1FY23 in the Distributor revenue on slide 9 of the investor presentation?

Ashish Malushte: For the six-month period, ₹14.9 or ₹15 crore revenue and for Q1 it will be close to ₹10.5 crore. This is the gross revenue that we booked for the distribution business. If you were there on the call sometime back when they were questions around distribution business, we explained that it is picking up good traction and in this quarter we released 14 movies. However, to clarify, since mostly we all have an accounting background, the way the revenue is booked is, whatever billing when a movie is procured by us from producer, he bills us and that goes as the expense and whatever revenue is generated at the theaters, the distributor share comes to us and that becomes our income.

Now, when I say that we have generated ₹2 crore of profit or ₹1.9 crore of profit from this business in this quarter, against that the top line for the quarter is ₹ 10.5 crore or, for six months it is ₹14.5 crore. This was not there in the pre-pandemic period and therefore, you will not see a corresponding revenue there. My request would be to not to look at it as a top line, but this should better be understood as a net revenue, because our policy here is to take near zero content risk. Therefore, it is better to look from the view of the net revenues we are generating. In Q1FY23, we generated ₹1.9 crore and in H1FY23, we generated close to ₹3.2 crore of net revenue.

Vipul Kumar Shah: In distribution business, you do not take any content risks, even if a movie fails. Is that a correct understanding?

Ashish Malushte: Correct. If it was a big budget movie, they might insist that a distributor should pay a minimum guarantee to a producer and that is what we do not do. All these movies are distributed on either a percentage commission or a fixed fee commission basis. We do not give any commitment to the producer on how much money we will pay him. Instead, he comes to us because of the value that is offered by UFO in terms of the screen network and the reputation of last two decades because of which otherwise he was unable to reach out to the theaters. With UFOs risk free distribution model, at least he can reach out to the exhibitors and do some collection. Therefore, our target is not the big budget or A-lister movies, we are more focused on quality regional movies and some of the Hindi movies with not so big star cast and where the producer doesn't have expectation of fixed minimum guarantee.

Vipul Kumar Shah: How scalable is this business?

Ashish Malushte: On scalability, if you see our two-quarter back presentation, we had very categorically said that we are not looking at this business as a revenue driver or a profitability driver directly. What we were observing was as the competition was intensifying in our core business, it was becoming more important for us to have a deeper connect with the exhibitor and the distributor community, which pays us rental and CDC revenue and my advertisement platform. Until the time we got into distribution business, we were in a way on a sideline and just a service provider.

Since now we are in the distribution business, and have distributed 66 movies, we are in direct connect with the theaters. They have started looking at UFO like a deeper level partner and this has more strategic value, which will help us to retain and grow these screens. In addition, it is of a strategic and qualitative importance as it is also generating for us a steady revenue line. Coming back to what number of movies you can distribute, as we said that in this quarter we did 14 movies and at all-India level there were 550 movies that were released. The scalability entirely depends on how many movies come in the bucket, which I explained.

Rajesh Mishra: This business works well because we are pushing South content into the north markets also. To put things in perspective, South releases almost 1000 films by themselves across the four main languages. If we even release around 10% of these movies into the North market, it significantly increases the content flow in the North market, which will reflect better for us in our CDC and advertising revenue.

Moderator: The next question is from the line of Krunal Shah from Enam Investment.

Krunal Shah: In the net revenue that we report for the distribution business, what would be the cost there?

Ashish Malushte: As I explained, for example, a Marathi movie wants to get distributed through us. We tell him that my fee will be say either 5% or 7% of the share that I collect for you. No commitment given, he gives the content and I enter into the arrangement with 150 theatres in Maharashtra. Whatever collection happens, if my revenue share agreed as per the understanding is 50% then that 50% comes to us. Assume that that collection becomes ₹10 crore then of that ₹10 crore our share is ₹5 crore. These ₹5 crore becomes our top line. Now our revenue will be ₹5 crore from this movie and since our share is only going to be say 10%, which is not that high normally, then the distributor will correspondingly bill us ₹4.5 crore. Now this ₹4.5 crore becomes the cost. Therefore, I would always, going forward be bringing out ₹50 lakhs net margin in this case, instead of explaining that our top line is ₹5 crore. As such topline of ₹5 crore has no meaning to our investors. We are also in discussion and figuring out that this should be represented as net in the top line, but it is more like an accounting technical discussion. If that happens, then we will start reporting only at the net level.

Krunal Shah: Does the net margin of say ₹3.20 crore for H1FY23 go to the bottom line?

Ashish Malushte: Except the direct manpower related cost and manpower costs, which is directly working on this. There is a very small team of four or five people working at HO off which except for one others are at a junior level. The bigger cost comes in the form of the extended staff, which is sitting in regional offices where the distribution is happening, but this is where the synergy comes in. In any case, we are absorbing this cost as part of the core business. They are doing this incremental work, but no cost will be reduced from ₹3.2 crore. It will be apportioned if somebody does segment reporting. However, at consolidated levels, against the ₹3.2 crore only HO level manpower costs will be there. The regional manpower costs is typically the synergistic move.

Krunal Shah: Has the government been using different medium to market or are they approaching more of digital mediums or other platforms?

Rajesh Mishra: Not really. What we have been observing is while they are spending some on all other mediums, they have actually reduced their costing across the board even on print compared to what they were spending earlier. There is an overall reduction in their ad spend across television, hoardings, and print, etc. They have reduced their cost significantly and some level of cost restriction is happening at their end.

Krunal Shah: With access to all information through Aadhaar, government has data that can make it easier for them to market directly via SMS. Have you seen that happening?

Ashish Malushte: I have personally not seen any such campaigns happening. Even if we see the digital medium where at least we are present, we do not see the government-spending happening. We see it more like a pause at the government end, but there will be areas where both state and central government would like to reach out to the residents of the country to explain what schemes they have. At some stage, they should take a turn, but as Rajesh mentioned, we have proactively started looking to see how we can push corporate more because ultimately we have to sell 12 to 15 minutes. If we can sell it through corporate, then that is it and that was the reason why from the IPO time, we were highlighting the government segment and corporate segment separately. We wanted to explain how we are slowly reducing our dependency on government advertisement. Unfortunately, with COVID and post COVID this has reached a stage where that revenue stream has completely dried before corporate could take off.

Krunal Shah: What is the CapEx plan for FY23?

Ashish Malushte: In FY23 that is the current year, we absolutely decided not to undertake the usual CapEx, because we used to have ₹40 to ₹50 crore of annual CapEx, which was required to maintain the network. We have been seeing that this CapEx, that we do is completely in our control, wherever we need we do it and we can prolong the upgradation of our own-leased equipment. Hence, this year we decided not to exceed the CapEx beyond ₹22 to ₹25 crore. In the first six months, we have spent ₹10 crore of which almost ₹7.5 crore was spent on servers. Almost 60% of that we had to invest because some of it were coming to End-of-life, and therefore, we needed to replenish it before time and this will help us get some savings in AMC related costs. Some of those are evident from current year numbers. To summarize, 6 months CapEx is at ₹10 crore and full year CapEx would be around ₹25 crore. Of ₹10 crore, 75% is on servers and of that almost 60% is because of the End-of-life situation.

Krunal Shah: Can you explain why has the advertisement revenue sharing gone up even while the advertisement revenue is down?

Ashish Malushte: If you see Q1 versus Q2, revenue has dropped by ₹4.5 crore, but ad-share has gone up by ₹ 2.4 crore. Advertisement sharing has two components; one is the minimum guarantee, which we give to a theater of say monthly ₹10,000. The contract is such that it provides for a certain percentage of sharing for example 25% of revenue or minimum guarantee whichever is higher. However, until the time revenue is exceeding say ₹40,000 in this case, we will keep paying ₹10,000 as a minimum guarantee. Now ideally, if this was a hit in this quarter similar should have been the hit in Q1 as well. However, since we were just exiting the pandemic, the minimum guarantee arrangement that we were committing to the theater, we had planned in such a way that it was going to go closer to pre-pandemic level from Q2 onwards. Therefore, you see there is an increase in Q2 versus Q1 and correspondingly in those cases there has been increasing rental charges.

Now, if you look at the numbers, Q1 numbers were lower on minimum guarantee, which is part of sharing because of the strategic reasons where we had discussed with the theaters that we will increase it from Q2 onwards. It means that this will be more or less the minimum guaranteed commitment for the rest of the two quarters for this year irrespective of the advertisement revenue. However, if the revenue keeps improving, and reach the minimum guarantee threshold, I am not required to share anything more and therefore, the percentage will keep dropping. This is the reason why you see that revenues have dropped, but still in Q2, MG has gone up and therefore, the margins have disproportionately gone down.

Krunal Shah: If the revenue goes up in future, how much would be the incremental share from the incremental revenue that will be needed to be shared with the exhibitors?

Ashish Malushte: As shown in slide 12, per screen reported revenue in Q2FY23 is ₹37,000 that means ₹12,000 monthly. Of this ₹12,000 i.e. my monthly advertisement revenue, 25% of that is ₹3,000. If I did not have a minimum guarantee with this screen, I would have paid only ₹3,000. However, from Q2FY23, MG started and now we are paying ₹10,000 minimum guarantee that is equal to the rental. Nevertheless, let us keep rental aside and only compare ₹12,000 advertisement revenue with ₹10,000 MG. This means in next quarter, if hypothetically this revenue doubles from ₹12,000 to ₹24,000 a month, 25% share would still be ₹6,000, which is lesser than ₹10,000. Therefore, in Q2FY23 also for this theater the share will be ₹10,000 only, whereas the entire incremental advertisement will flow into margin. For each theatre there is a contract and a similar structure, only the minimum guaranteed amount differs.

Krunal Shah: What will be the broad range on a percentage right now after COVID?

Ashish Malushte: Currently, the sharing is at 66% for H1FY23 and we are expecting that it should come down in the range of 45-47% in a normal scenario, and eventually settled at 40%, which was the pre-COVID level.

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

Manan Patel: We have an impairment of ₹2.9 crore and on standalone basis it is almost ₹13 crore. Can you please elaborate what is this impairment related to because until last year we were exercising options or warrants on CDPL.

Ashish Malushte: Cinestaan (CDPL) was more of a strategic investment that we decided to do thinking that it will help our advertisement revenue in a peculiar way and this investment was finalized in December 2019. Cinestaan team had their own business plans that we wanted to flourish the way they had planned it. However, unfortunately, in COVID this business came to a complete standstill. The revival was completely dependent on more of Hindi content comeback that started coming back much later. Until that time, there was an ongoing cash burn in this company and that cash burn was being funded through the investment infused from our side, which was as per the investment agreement. Now, this business beginning 2022 was not looking more meaningful to us and we decided to discontinue investing in this business, because we wanted to focus on bringing our core business back on track. A decision was taken to not investment anything beyond whatever was agreed in 2019.

To answer your question of why we were exercising these options until last year is because of the contractual arrangement and obligation on us under our 2019 agreement. By fulfilling this contractual obligation, we kept away from other obligations that would have fell on us had we not fulfilled it. Post fulfilling the obligations we decided not to infuse any more funds in this business and because of which this business may not grow, or be able to go back to its pre-COVID level. Hence, we decided to take a provision on the entire investment that stood at ₹291 lakhs on a consolidated level. With this, whatever investments we have done, and whatever exposure we had in Cinestaan is fully provided either in the form of the impairment provision, or in the form of the losses, which came into the consolidated numbers over a period. To summarize, it was a contractual arrangement that had to be fulfilled otherwise we would have got into a different legal dispute. We honored that commitment and were still hopeful that the business may shape up well in 2021 but post the second phase of COVID, we were clear that we should focus more on our core business. Therefore, we have now taken this provision and cleaned our books to the extent of the investment.

Manan Patel: Any update on the clarity on the NOVA Cinema concept?

Rajesh Mishra: NOVA we are progressing well and our first project is coming up near Nagpur. We expect it to go live by next month and there are four more projects under development in Uttar Pradesh. It is gaining traction and this is a long-term business that will take some time to grow. We are working with local players and providing them services and inputs so that they can create more cinemas as this is the basic idea of NOVA. With these five projects coming up, we will see some traction that will drive the business. This will act essentially as the demonstration units, which will propel the business further along with other entrepreneurs. The idea is to grow the number of cinemas in the country and this is what we are hoping to achieve with this model.

Manan Patel: In the sale of product business, margins have dropped in this quarter. Is the margin in this business sustainable or you see it going down from here on?

Ashish Malushte: 20% is my margin in this quarter against the business. Even in the pre-COVID period, the margins used to be 21% in FY20, 15.4% in FY21, and in Q2FY20 it was slightly higher to 25%, but more or less the combined marginal of sale of equipment and sale of lamp in pre-COVID period was in the range of 16 to 20%. This continues to have the same margin. In fact, lamp we know at what margins we are selling it. The only delta comes from the sale of the equipment, which is predominantly in the Middle East region where in some of the contracts depending upon the negotiation we might get slightly higher margins, which happened in Q1 where our margin was 25%. Margins have not dipped; in fact, they are there where they used to be historically at 20% level. As regards this revenue stream is concerned it is more like an ancillary revenue stream to our core business. Since we are into digital cinema and a reliable player, people prefer us when they go for procurement of their own equipment, and this would continue to contribute some percentage of our revenue and profitability. We are hoping that in next few quarters, at least it will be on higher levels because of some expectations in Middle East where we are hoping that because the previous sets of equipment are reaching end of life and you may see some uptick in either sales or some other structures. This is how we look at this entire revenue line and the potential of this revenue.

Moderator: The next question is from the line of Vaibhav Badjatya from HNI Investments.

Vaibhav Badjatya: Before COVID i.e. in FY19 or 9MFY20, how much of your government revenue was from the central government and how much from state government or local bodies?

Ashish Malushte: Broadly, central government used to contribute around 75% to 80% in some theaters. However, we were seeing a trend where the state government and PSU share was slowly increasing and from a level of 15-16% in the initial year like 2014-2015, it reached 25% level but major contribution was coming central government.

Vaibhav Badjatya: Is there a separate department in the central government that handles the government advertisement or you have to go to separate ministries and pitch the advertisement to them. How does it function?

Rajesh Mishra: There is a central agency DAVP, Bureau of communication. They channel all the advertising of the various ministries through them. Typically, we would make pitches to the various ministries, but the entire advertising channel was done through this centralized agency. Individual ministries on their own does not release advertisements. It comes from one centralized nodal point.

Vaibhav Badjatya: How much should be through print and how much should be through theatrical advertising is decided by digital ministries and not by DAVP?

Rajesh Mishra: Technically, you are right, but everything just channeled through Bureau of communications. As I mentioned that we are seeing some level of advertising is happening on the print medium, while all the other mediums have been totally curtailed. Even the spends on the print medium has been significantly curtailed compared to the pre-pandemic time. Earlier, let us say they would be spending around ₹300-400 crore in a quarter. In this Q1, we have just seen around ₹23 crore happening, so overall significant dip has happened on the government advertising side.

Vaibhav Badjatya: In last quarter, you had mentioned that they have curtailed spending on theatrical medium only but in this quarter, you are saying government has curtailed on all mediums. Can you please explain?

Ashish Malushte: I think that was not the situation because the bigger pain point for all of us is not just our medium for all of us is that government has in a way curtailed its spend. It is not just our transcript or what we said in the last quarter, but that was evident in some of the questions that were asked in Parliament when the answers were given. I will try to pull those public domain information and share it with you, but I do not think we have mentioned that spends on other mediums is stronger and only on in cinema it is going down. Historically, if you see in-cinema advertisement was a much late entrant and we became DAVP approved only in 2010 or 2011. Until that time government used to spend in other mediums, but the pace at which this in-cinema medium was liked by the government agencies was evident from the fact that from ₹ 0 crore in 2009, we as an industry reached a level of close to ₹350 crore in central government when they spent like ₹1200-1400 crore. There has been a disproportionate liking that they had and there are reasons that we feel go in our favor. We can give them the right kind of visibility, the larger screen no remote in their hand, and they can do targeted language-based advertisements that sell through. We were probably the larger beneficiaries when somebody sees allocation in 2007 versus 2017-2018. We probably would have said that the advertisers have not stopped their advertisement spend on other medium, but those are the corporate advertisers and not the government advertiser. There could have been a question that whether the advertisers as a whole have reduced their advertisement spends. The answer to that has been that in other medium, they are doing strong and therefore they should do better than our medium as well and which happened in Q1, not just us, but PVR and INOX saw a pick in their advertisements, which comes from corporate, so we need to reconcile this.

Moderator: The next question is from the line of VipulKumar Shah from Sumangal Investments.

Vipulkumar Shah: Can you comment on the performance of Caravan and how is it looking post COVID?

Rajesh Mishra: Caravan is a low performer right now. We have parked our vans and are awaiting empanelment from government. In this year, we did a business of only ₹20 lakhs each in Q1 and Q2, so not much action over there. However, we have curtailed our cost entirely on that.

VipulKumar Shah: Can you briefly explain what is CDC revenue?

Ashish Malushte: CDC is a core revenue stream that we earn when a distributor wants to show his movie in a theater. In the past, he used to give a physical reel, which UFO eliminated through its digital network. Now, there is no need for an investment in the expensive physical reel by the distributor. In lieu of that ₹70,000-80,000 cost of a physical reel, what we charge is a content delivery charge (CDC) to the distributors for taking their films to the theater and ensuring that it plays out in the theater only as per their instructions. Suppose if they have asked you to play it out three times a day, it will play out only three times a day and for every playback, we charge them per show basis or there could be a fixed weekly fee. The combination of this gives us our content delivery charges i.e. our revenue from distributor. It is nothing but a small share, which we are charging to the distributor community for a larger cost arbitrage or cost saving that we have brought to them over a period of time. Therefore, you see big Hindi movie releasing in 2000-3000 screen, or even regional films like Punjabi, Marathi film getting released in 250-300 screens, which was not the case before UFO.

Vipulkumar Shah: Previously you were charging for only 2 to 3 weeks and beyond 2 to 3 weeks, you were not charging.

Rajesh Mishra: Correct. In the Hindi movie circuit, we charge for first and second week, and third week onwards there is no charge. In some cases, distributors have an option of choosing a package, but these are variants and the model remains the same.

Moderator: The next question is from the line of Krunal Shah from Enam Investment

Krunal Shah: What is VPF service revenue?

Ashish Malushte: If you remember from 2015, when we did the IPO, we were trying to explain the market that there is a sunset in our revenue and therefore we used to show revenue as D-cinema and E-cinema. After 2019, the sunset business attributable to Hollywood studios both in India and international reached the sunset meaning whatever revenue we were supposed to lose contractually slowly as a waterfall reached the timeline. So it became meaningless to show D-cinema and E-cinema revenue separately and confusing the market. Hence, we have repositioned revenue from distributor in Q1FY23 as content delivery charge revenue and Virtual Print Fee revenue. Wherever you see a Virtual Print Fee revenue, there is an arrangement of sharing of that fee with the theaters. Whereas in the content delivery charge, the entire revenue is ours. The VPF revenue model is the same, the money received from distributors for delivery of their content and play out of their content. Contractually there we have entered into an arrangement with theater to share the revenue and therefore, you will find the corresponding cost item of Virtual Print Fee sharing.

Krunal Shah: Can you please elaborate more?

Ashish Malushte: If you go to slide 12, you will see a VPF revenue chart and correspondingly there is a small bar, which will show the net revenue. The difference between the two is what we share which is a significant share and as high as 85%.

Krunal Shah: Previously in the VPF services revenue, sharing was only in D-cinema and there was hardly any in E-cinema.

Ashish Malushte: That is correct.

Krunal Shah: If we were to equate D-cinema with VPF services revenue now and E-cinemas with CDC, would that the right way to model it going forward as well.

Ashish Malushte: It will be more or less right, but there are variants in that for example, we would have acquired 13 screens for VPF arrangement, which were not there in the past.

Rajesh Mishra: Typically, these are screens where the equipment is owned by the cinemas. Cinemas when they have their own equipment, they approach us for the AMC services or collection of their VPF. In many cases advertisement rights also gets assigned to us. This is a zero investment areas where we provide these services.

Ashish Malushte: You are right. Historically, the majority of VPF what is shown will now come from the bucket of D-cinema. D-cinema was going down systematically and we thought it is better to present the distributor revenue in two buckets. One is the CDC, which is not shared and the other is VPF, which is shared.

Krunal Shah: I was asking that where the equipment is owned versus leased, does that also make a difference in the classification here?

Ashish Malushte: That is not the only criteria. The basic criteria is the screen where I am not required to share my revenue is purely my revenue and my network. Contractually if we are required to share the revenue then there will be two category either invested or not invested. If it is a contractual share of the revenue, it becomes a VPF service revenue.

Krunal Shah: In case of VPF services revenue the exhibitors will mostly be multiplexes chains?

Ashish Malushte: That is correct.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Aasim Bharde for his closing comments.

Aasim Bharde: Thank you. On behalf of DAM Capital Advisors, 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.