



“Digikore Studios Limited
H2 and FY24 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to H2 FY24 Results Conference Call of Digikore Studios Limited hosted by Kirin Advisors. 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 an operator by pressing the star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Ms. Chandni from Kirin Advisors. Thank you and over to you, ma'am.

Chandni Chande: Thank you. On behalf of Kirin Advisors, I welcome you all to the conference call of Digikore Studios Limited. From management side, we have Mr. Abhishek More, Managing Director. Now I hand over the call to Mr. Abhishek More. Over to you, sir.

Abhishek More: Thank you, Chandni. Good evening, everyone. My name is Abhishek More and I'm the Managing Director of Digikore Studios Limited. Along with me from Digikore, I have Ms. Heny Pahuja, Ms. Surekha Misal and Mr. Shrinivas Behede as well, joining this call from Digikore.

So welcome to the H2 & FY24 Earnings Conference Call for Digikore Studios Limited. It's a pleasure to have each of you here today as we reflect on the significant accomplishments and advancements we've made during this period. Before we delve into the specifics of our performance, I'd like to provide a brief overview of Digikore Studios Limited.

At Digikore, we take immense pride in being one of the leading technology-driven visual effects studios. Our commitment to excellence is reflected in the comprehensive range of services we offer, all managed by seasoned professionals. Utilizing state-of-the-art technology and proprietary tools, we ensure that each project we undertake meets the highest standards of quality. This dedication has positioned us as the preferred choice for major studios around the globe.

Our portfolio boasts an impressive array of blockbuster movies and acclaimed television shows, including, but not limited to, Thor, Love and Thunder, Black Panther, Wakanda Forever and Stranger Things. We have had the privilege of collaborating with esteemed names such as Disney, Marvel, Netflix and Warner Brothers, among others.

Our team's unwavering dedication and ingenuity have enabled us to tackle challenges head-on, delivering results that exceed expectations time and again. Recent highlights at Digikore, some of the new things that have taken place out here. Obviously, one of the most important things is the strategic hiring of senior talent across Canada and the U.S.

I'm glad to announce that we have onboarded seasoned professionals like Jason Sperling, who joins us as Creative Director and VFX Supervisor, bringing with him a wealth of industry experience and a strong network of connections. For most of you who don't know, Jason's last role was Head of VFX, Netflix, U.S., and Canada. He comes in with over 25 years of experience in the industry, highly respected individual in the industry, within Netflix and outside Netflix,

and obviously we get to immensely benefit from all of the connections that Jason brings along with him to the company.

The other person whom we are really excited about is Marina Abramyan. She's joined us as Executive Producer. With over 17 years of industry experience and a track record of working on exceptional visual effects projects, she brings in tremendous value to Digikore. In her last role, she was Visual Effects Producer at Star Trek for several seasons and thanks to her efforts, we've already started working on the Star Trek Universe, which is a huge breakthrough for Digikore and it should lead to substantial revenue for many, many years for Digikore.

David Crawford joins us as Head of Studio in Montreal. With three decades of experience in VFX and a portfolio boasting blockbusters like Titanic and Spider-Man, David's innovation approach and management expertise will play a pivotal role in driving our growth. Obviously, we have many more hires at junior levels, but these are the three key hires and three key driving forces for Digikore, who are going to be leading the growth of Digikore North America over the years to come.

While these hirings have been recent, we expect the impact, obviously, like I said, to be significant in the near future. Furthermore, we are proud to introduce, which is our most, you know, we've been really excited about the platform, which is Digikore's cloud-based platform for rental of virtual production sets.

We have launched, I'm really happy to inform that we have launched the beta version of vpsets.com, i.e. www.vpsets.com. We have, as we speak, we have 20 potential customers as beta users of our website. We are in touch with over 300 potential customers of our website, and this service is the first of its kind in the world.

In fact, this would be the first endeavor where anybody is making to convert a service into a SaaS-based product. So that really gives us a huge advantage over anybody else in the world, not just in India. It goes without saying our commitment to innovation is our investment in research and development.

Digikore is among the very few studios in the world that invest substantially in R&D, because we do believe that R&D, while many people think it's a waste of money, but we strongly believe R&D is the thing that is our edge, and that's going to take us way ahead of most people in the years to come.

Turning to our financial performance, in FY24 our standalone performance showed significant growth across all major financial metrics. Compared to FY23, total income increased by 33.08% over FY23, rising from INR35.8 crores to INR47.2 crores. This boost in revenue reflects our successful market expansion and operational improvements. We must understand one thing, that an IPO is not magic. It's not that you do an IPO today and you start doing double and triple revenue in two or three months.

Obviously, our investments are in the right place, and one good thing is, yes, we have growth over FY23. FY24, FY25, FY26, our investments that we are making in the right places, in the

right expansion programs, are going to bear fruits in the months and quarters to come. Our EBITDA has more than doubled, reaching INR15.29 crores, a 104.35% increase from last year's INR7.48 crores, highlighting our enhanced operational efficiency.

The EBITDA margin also saw a substantial rise, improving by 1127 bps to 32.30. Our PAT nearly doubled, growing by 118% to INR9.55 crores, with the PAT margin increasing by 789 bps to 20.19. Our consolidated financials for FY24 are equally impressive, total income up by 33.83%, from 36.92 to 49.42. The EBITDA grew significantly by 118% to INR15.28 crores, reflecting improved efficiency across the board. This resulted in the EBITDA margin of 13.92.

Our PAT also saw an exceptional increase of 144% over FY23, reaching INR9.53 crores. So as we've seen, if you're comparing FY23 to FY24, there has been substantial growth already. And as we look ahead, we are looking at these numbers growing at a much faster pace, because then the effects of the investments that- we are making into the US and Canada will take place. The majority of these numbers that you see in the results now, if these are not really from the effects of the IPO, it is just too soon for the effects of those investments to take place. I believe the effects of those numbers will start showing in our FY24-25 results, and we are really excited about that.

So again, welcome all of you, and I'm leaving the floor open to the Q&A session.

- Moderator:** The first question is from the line of Parikshit Kabra from Pkeday Advisors. Please go ahead.
- Parikshit Kabra:** Hi Abhishek, thanks for the opportunity and congratulations on your results.
- Abhishek More:** Thank you, sir.
- Parikshit Kabra:** I was just wondering first was -- can you give us a split between the VFX revenue versus the revenue that you generate from the shows that you also produce?
- Abhishek More:** We've already actually split that up. If you see in our profit and loss, we currently put the OTT revenue as other revenue.
- Parikshit Kabra:** Okay, great. All right. So that number is INR2 crores. That's all that there is.
- Abhishek More:** OTTs we started the whole process of OTT. We have only two shows up online right now, 16 episodes. But the projections for 2024-2025, we've set the base now. And we are looking at very healthy double-digit crores numbers for 2024-2025 from our OTT business. Because this is the first year, testing the waters. We couldn't do too much. But yes, now is the time when we take this up and scale it.
- Parikshit Kabra:** Got it. And secondly, in terms of the revenue on a sequential basis, we have moved from, and I'm only looking at VFX right now, from 24.8 to 22.4. So, there has not been a significant increase there. And we have about 450 employees, which seems to be some of what our competitors also have, with a much substantially higher revenue. So how do I read into that?
- Abhishek More:** With a much substantially higher? Sorry, I didn't get you. What's that?

Parikshit Kabra: The revenue. The same employee count, approximately the same employee count of 450 people. And the revenue, which is almost double what our revenue is.

Abhishek More: Honestly, I can't compare with others. And that's not right for me or you. You can compare, obviously, but I cannot compare with others. They must be doing something differently. We are doing something differently. We are able to achieve this with the numbers that we have in terms of employees. We haven't really seen what they do and why they are able to achieve much higher numbers.

We are, and we do believe, so today you are comparing us with the listed entities. But when we compare ourselves with the industry at large, we are very much in line with what the industry at large, which would include not a comparison between just three companies, but comparing Digikore with probably 20 or 30 other companies in the industry. So, I would suggest, if you can do that, it would be a better picture. So, when you compare, it's always better to get a larger pool of people to compare.

Parikshit Kabra: So, it's basically what is available at my disposal, Abhishek.

Abhishek More: I appreciate that. Yes I completely understand that. So when we also compare, see for us also to compare, we have to compare with the industry. There's an industry standard. So we do believe that we are very much in line with the industry standard.

Parikshit Kabra: Got it. And the lack of sequential growth, Abhishek, what can we see into that?

Abhishek More: Two reasons. So every business has, you know, there are many businesses which are seasonal. So today let's look at an air conditioner brand or an ice cream brand. The first quarter would be the strongest. Summers, after that, every quarter would be weak because it's seasonal. You cannot expect an air conditioner brand to deliver second quarter better than first quarter.

It's impossible. Same way, in the visual effects industry or the filmmaking industry, the two things that have affected our H2 revenue, not too much though. We've tried to do our best to reach where we are. But yes, two things did affect us. One, the strikes, which everybody knows that it was there.

And two, in general, in general, if you look at it, the H2 in the film industry is historically weaker than H1. Because in H2, November 20th, November 25th onwards, after Thanksgiving, the industry goes on a standstill. Majority of the people then come back to work, you know, early January, which is a very standard thing. In US and Europe, everybody knows it's closed.

Filming does not happen. New projects are not really taking shape that time. So when you're looking at semi, most studios shutting, not doing too much work at that time, it's standard because you're losing literally a month, month and a half out of six months on a slowdown period.

So it's not about this year, for that matter, even if you're digging into financials of most companies in the film industry, or even many IT companies for that matter, you'll see H1 is always stronger than H2 when they're specially working with US and European markets.

Parikshit Kabra: Got it. And the onslaught of the pent up demand, are you seeing that already or that is not yet started coming?

Abhishek More: We are right now, I would say very conservatively, very, on a very conservative level. We are in talks with productions which have VFX, total VFX budgets of over \$50 million. So productions are already on floor. We've already started getting in quite a bit of work. Like I said, we've already started getting work from Star Trek, which is one of the biggest wins for us this year.

So it has started coming in, but I would really say the full-fledged effect of the lock, not lockdown, sorry, the strike. Because a lot of productions are in process right now. In our industry, it's the pre-production that takes place first, then the production and we come last in the chain of work, right? So, many productions are on floor and we estimate the VFX boom to really start from late June, early July.

Parikshit Kabra: Got it. Perfect. I'll come back, Abhishek. Thanks a lot.

Abhishek More: Sure.

Moderator: Thank you. The next question is from the line of Imran from Longbow India Capital. Please go ahead.

Imran: Yes. Hi, good afternoon, gentlemen. Thanks for the opportunity. I will start my questions on the balance sheet first before I move to the other things. My first question is on the receivable part. You mentioned in your commentary that you have not seen impact of IPO proceeds as of now in your business. However, your receivables tell a different story altogether. About 25, almost all of the money is into receivables. So how would you grow then? If all the money is into receivables, you don't have cash, how do you grow in the next year?

Abhishek More: No, no. I didn't understand. When you say all the money, which money is into receivables? So it's roughly about INR24 crores, INR25 crores, right?

Imran: That is correct.

Abhishek More: And that is also a reason. The reason for that is, let me tell you now. So September is when the strikes opened. October, November, this year, obviously December, a lot of filming happened. When most of the work actually came to us, so December, January were little weak months for us because a lot of filming or post strikes were happening out there.

Tons and tons of work for the last six months, majority of them has come to us between end January, February, March. So that's why they get in receivables because our average payment

terms are anywhere between 60 days to 90 days. So while a lot of the work, yes, it is, I'm not saying it is troubling our cash flow, but yes, it does hamper the cash flow to a very large extent.

But we are managing. It's not that we are in any state of cash flow issues. We are pretty comfortable on our cash flows and we are confident of seeing this through the receivables that are there.

Imran: Right. So this also indicates that you have started collecting and you must have collected.

Abhishek More: Obviously, collections have started. But it's not that the entire 24 has come in, but collections have started. And I must tell you one more thing. It's not on the -- it's only us, right?

So these larger studios who've been impacted by the strikes, used to pay in 30 days is now paying in 60 days. So, even they are trying to figure out their cash flows. As an example, Tippett what we have filed for bankruptcy. So people are struggling in the US. See, in India, when you have closures of two, three months, four months, because of the lower cost of operation, we are able to manage.

But out they are a 100% VFX company, it's a few million dollars of outflow every month. So, just the scale of management is very large. But the entire industry is struggling with cash flow right now. It's not only us, but everybody's managing as us, we are also managing the cash flows pretty well. And we don't see this as an alarming issue.

Imran: Right, right. The other question, I'll club maybe all the questions on the balance sheet now because of the velocity of time. See, I think you have a lot of capital work in progress now from INR2 crores to it is now INR6 crores. Intangible assets, I can understand you have created this platform.

Abhishek More: That's right.

Imran: Right So INR6 crores, this is an addition of INR4 crores in the capital work in progress. Then there are some other current assets which have gone from INR2 crores to INR6 crores. Some short term loans and advances again gone from INR2.5 crores to INR4.8 crores something. So, net-net about eight, INR10 crores impact. So can you tell us what all these are?

Abhishek More: Okay, so this I'm going to let Surekha or Srinivas handle because they are the finance people. I think they'll be in a better position to answer that honestly.

Imran: Maybe later they can answer these questions. The other question that I have is, or maybe this is a clue to the current question. Your employee cost has, I don't know why it has reduced. And then, the other expenses have gone up slightly. So just trying to understand what is happening here?

Abhishek More: Other expenses also include towards our Canada and US operations. So that is there. Obviously, the team in India, because of January and February being slow, we are not at 450 today, we are obviously much lesser than 450. But we also -- it didn't make sense in January, February for us

to, when we saw after the strike. So we did reduce some manpower and that's why you see the effect out there. It's not like dropped from 450 to 100, it's a slight reduction, even in terms of manpower, but that's a good step, right? We were trying to save on cost.

Imran: Right. And just one last question, and then I'll move to the queue. I wanted to know how many people you have in Canada now?

Abhishek More: So it's not only Canada. It's U.S. and Canada. So we have a total of 4 senior people and 7 artist level people.

Imran: Okay. Thank you. I'll move to the queue.

Moderator: Thank you. The next question is from the line of Vivek from Shanthi Financial. Please go ahead.

Abhishek More: Hi, Vivek.

Vivek: Yes, thank you. So we have these wonderful results from your firm. And my first question is, do you see a similar trajectory or a better trajectory of growth in the next two years? And the second question is, how would you position yourself? Because as you said, there are many set of equal players in the market, but there are three companies that we kind of look at in the listed space in India. How would you position yourself as unique? The VPSETS is a very beautiful solution that you're bringing in the SaaS space. But apart from that, what is the positioning of Digikore, which is unique which compels customers to look at you? Thank you.

Abhishek More: Brilliant. I'm going to answer both your questions. First is we are very excited and confident of maintaining a similar growth trajectory. In fact, in the revenue side, our growth trajectory is going to be much more than the difference between '23 and '24, because we're going to start seeing revenue from Canada as well. So on a consolidated basis, the revenue projections are definitely much more in terms of growth numbers.

Now talking about the difference, I'll be honest with you. When you come to VFX, it would be very stupid for any company in India to say that I'm different from the other because everybody's the same. There is no major difference on the VFX side. Now let's talk about as a company. I'm a huge fan of cricket. 10 years back, a batsman and a bowler were given the main advantage, but today an all-rounder is. An all-rounder is invaluable. We've seen that in sport, we've seen that in general. The perception has changed.

Digikore is an all-rounder and Digikore is the only all-rounder in the visual effects/entertainment space in India. One end, we have visual effects where we are growing extremely fast, embracing technology among the forerunners when it comes to integrating AI with visual effects. On the other end, we have VPSETS.com, the first of its kind and the only platform in the world for renting of virtual production assets.

Technically, we have been able to productize a service, which is a huge benefit for any company. On the third side, we have the production of branded content. It's not really production of fiction

content. We do production of branded content, which is a very unique business model by itself. I'd be surprised if there's anybody else in India using our model in production of branded content.

Why we do this? There's a very valid reason for this. Visual effects is, at the end of the day, it is a service-based industry. We are doing project-based service. A project-based service will always have little ups and downs. It's very rare that every month you have new project, new project. There are times when you have, let's say, a week, 10 days, 15 days of little lesser projects. We've had times when we've had to refuse work in one month, and next month we've had 10 days free. But that's the way it is. That's a project-based business.

We needed some things to stabilize this to ensure that we have longevity as a company because of AI also coming in. And that's when we started working on VPSets almost now, two years ago, the content maybe 12 to 14 months ago. And we're seeing the fruits of these early decisions that we took. And I can proudly say that today we have ensured longevity for Digikore. Whether there is AI disrupting VFX or not, nobody knows. But even if it does 1%, I think we have safeguarded and protected Digikore as a company for many, many years.

We are among the very few animation and VFX companies in India who have survived 24 years. Whenever you have time, you can go through a history of VFX and animation companies over the last 15, 20 years. You'll find two or three out of the 200 who survive 24 years, because we've always innovated. We've come out with new areas of revenue within the industry to ensure that we are not impacted by new technology that disrupts the business.

Vivek: Any projection for the industry's growth? I'm talking about the Indian industry, which is catering to the global marketplace. Any projection or industry reports that we can refer to?

Abhishek More: I don't have those figures, so I cannot comment on that. For Digikore, it's a very simple goal. The global VFX industry is \$10 billion and we want a small part of that. Our immediate goals over the next two years is to grab \$25 million out of that which on a very logical sense for a company who is approved by Disney, Warner, Paramount, Sony, and all of the majors, to grab \$25 million pie out of a \$10 billion market is not very difficult. So our goal is that and we are focused on achieving our goals.

Vivek: \$25 million in how many years?

Abhishek More: In two years' time.

Vivek: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Ankit Poddar from Refex Industry. Please go ahead.

Ankit Poddar: Hi. I just want to ask two questions. One is the financial results which you have now in your website of the company, Digikore VFX, it's not uploaded. So I think corporate governance is important. So one is it's not uploaded. Second is...

- Abhishek More:** We just uploaded that to NSE like 45 minutes ago.
- Ankit Poddar:** As a company, as a good policy, I think you should upload on the website also.
- Abhishek More:** Which will be done today.
- Ankit Poddar:** And the second thing is, in your cash flow statements -- sorry, in your P&L account, I am seeing that there is a tax expense relating to the profit of the current year and also some deferred tax and tax of earlier periods. But in your cash flow statement, you are showing tax paid as nil. So I think there is some -- why is there a discrepancy like that? Direct tax paid, definitely company will have some advance tax or TDS. And there is something shown in P&L, that is why it is not getting reflected. Second point.
- Third point is, I have seen from your balance sheet that your intangible assets have increased from INR32 lakhs to INR263 lakhs. But your depreciation has not increased proportionately. Depreciation has just increased from INR103 lakhs to INR118 lakhs. Why is there such an increase in intangible assets but depreciation has not increased? That's all.
- Abhishek More:** So that I would leave again to Surekha or Shrinivas to answer because they are better at answering that.
- Shrinivas Behede:** Hello. Just to explain you, the second point which you asked about the increase in the fixed asset but not increase in the depreciation. So actually you see that increase into the CWIP, that is capital work in progress. So that is not yet capitalized. So maybe that...
- Ankit Poddar:** No, I am telling fixed assets, not capital work in progress. Your intangible assets have increased from INR32 crores to INR263 crores.
- Shrinivas Behede:** No, not INR32 crores to INR263 crores.
- Ankit Poddar:** INR32 lakhs to INR263 lakhs. So almost it's like 8.5x. But depreciation in the profit and loss is from INR103 lakhs to INR118 lakhs, I mean just 12%-13% increase in depreciation. Why?
- Shrinivas Behede:** If you see that capitalization work you are seeing from INR263 lakhs to INR32 lakhs, that is because that capitalization has been done in the latter part of the financial year. and that depreciation will definitely be proportionately on that part only, that period only.
- Ankit Poddar:** Okay, and the cash flow thing?
- Abhishek More:** The cash flow thing definitely I have just checked that and if it is done we will update that definitely because we have the tax flow and in the tax profit and loss account we have the advance tax paid and we also have deferred tax liability. So, we recognize the deferred tax asset as well there.
- Ankit Poddar:** Okay, thank you. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sripal from HNI. Please go ahead.

- Sripal:** Abhishek, I just want to know I just saw the cash flow so in regard with the working capital I can see the receivables are piled up, but there is also an increase in borrowing. So, what is this long-term borrowing all about if you can just tell us?
- Abhishek More:** So, we got an increase from our bank on the CC limits that we enjoyed. So, that is the long-term borrowing that you are talking about.
- Sripal:** But that should come under short-term borrowing, but do you have a vision of repaying this loan or keeping this loan as it is like that?
- Abhishek More:** No, obviously not. See our cash flow as you can see because of the receivables from our clients. Obviously, as we are receiving money and that is a working capital.
- Sripal:** So, as investors we would like that there should not be any borrowing.
- Abhishek More:** Even as a company we would like that there is no borrowing.
- Sripal:** Yes. Okay, secondly, I just wanted to know the market share currently which we hold and what is the competition in the market and where we stand. Just a brief, I know you have discussed this the global market size and all this, but currently where are we standing in that and what is our immediate target in the next year?
- Abhishek More:** Currently where do we stand in the global market size in terms of revenue obviously we are minuscule. We have primarily been an India-based studio doing revenues of USD6 million, USD5 million. The small, small boutique VFX studios in the US do that much. So, if you look at the global perspective we are minuscule, but now with the expansion that we have already started with the hiring of the teams in North America and the US and with our wholly owned subsidiary active in Canada.
- We definitely - I wouldn't say never say never. We saw that we can't become a USD100 million company. Yes, we can, but like I said our initial goal is 25 million which would position us as a small to mid-sized VFX studio or mid-sized VFX studio in the US. So, our first goal is that and all the steps that we are taking is to achieve USD25 million revenue within 2 years' time.
- Sripal:** Okay, great. Last question. So, I saw your half yearly results. So half yearly results are little bad than the H1, but do we have this season every year or is it only for this year that we see H2 results?
- Abhishek More:** No. So I will tell you there are two reasons why the H2 results are lower than H1 results. Both of them are...
- Sripal:** You have mentioned this earlier in the call, but I just want to know whether it will be like this every time or this year was anything specific?
- Abhishek More:** Yes, I'll tell you. Historically, Digikore has seen H2 weaker than H1, but I'll tell you how it goes now. Let's say in H2, I get a - you see we are project based. Now, let's say in H1 I get a project in July which is like let's say a INR10 crores project. I can't go and tell the client to give INR5

crores in H1 and INR5 crores in H2 or else H2 will become weak or vice versa. It's a project. It's not something like I'm in the retail industry.

Today, I've got 100 distributors, next quarter I got 110 distributors, 120 which is a linear growth. In our case, it could be that, you know, one quarter I get a crazy project and next quarter is weak, but then unfortunately that's not in my hand because it is a project based business, but to answer your question, historically, H2 has been weaker than H1, at least for Digikore I don't know other companies, but it's just that the industry is that way.

And there are times - yes there have been times when we've got a fabulous project in H2 and that time H2 has taken off, but that's again it's a project based like I said. Coming back to H2 for this year our top line hasn't taken such a big beating, but our bottom line has and there's a reason for bottom line to take this beating because of the salary investments that we have made in US and Canada over the last five months which has mainly been in H2.

The results of which will show. It's not that today I place a person or you hire a person in your company and from the next week onwards the revenue starts flowing behind that. It is a period. So if we have taken a beating on our PAT it is a temporary beating not because the business has gone bad, not because our margins in general have fallen. Only because of the onetime extra expenses we have had for our teams that we have set up in US and Canada.

Sripal: Okay. If such a thing happens, I think then the board should consider whether it should be shown as an exceptional item or not. That I think you can do it like that. So that by seeing the financials in the P&L the H2 is the PAT of the H1. So it does not look correct. If it is in the exceptional item or if it is a onetime expense then probably we get a better understanding of the P&L and we can understand ourselves.

Abhishek More: But I am not a finance specialist over here, but just for my knowledge if we didn't show that as an expense in India which we have technically and we showed that as an exceptional item in the India balance sheet, but in the Canadian company's balance sheet then that would come as an expense.

Sripal: Yes, it is still part of the expense only, but if we show it as an exceptional item, we can consider every year.

Abhishek More: Then you show it as an exceptional item and then obviously the PAT. The PAT goes up accordingly, but this is a onetime affair which had to be done. The whole purpose of the IPO was to grow and get the team in place out there. When you set up new teams the results will take three to six months to show.

Sripal: Okay. That's all. Thank you.

Abhishek More: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Sachdeva an Individual Investor. Please go ahead.

- Gaurav Sachdeva:** Yes. Hello, sir. Sir, although you have already given the reason for the low bottom line in H2, but I want to ask for the FY25 as in two, three months before in the Arihant Capital concall you guided for 25% PAT margin for FY25, are you still on it?
- Abhishek More:** As of now we haven't moved out from there. So as of now we are. It's too early for the full financial year to comment on it. Definitely, I will be in a better position when we are at H1 FY25, but in the month and in the period gone so far in the year there's been no change in that, in our plans for that.
- Gaurav Sachdeva:** And what about top line sir, what is the expected top line in FY25?
- Abhishek More:** Top line our internal target is INR100 crores, but to be very honest we are like I said an internal target is INR100 crores, but anything between 80 to 100 I think, so we would be doing exceptionally well because 80 would be close to 100% over FY24.
- Gaurav Sachdeva:** Okay. Thank sir. That's from my side.
- Abhishek More:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sandeep Dixit from Arjav Partners. Please go ahead.
- Sandeep Dixit:** Thank you. Just a clarification. If I look at these numbers of employee benefit expenses the first half it was INR6.96 crores. It has actually fallen to INR5.05 crores?
- Abhishek More:** So I did mention that we did reduce some people in the December-January period because of the impact of the strikes. We were carrying a cost at that time and it is natural for a business to take a call and reduce the team even when the work has come down a little in that period.
- Sandeep Dixit:** Okay. So is this also related to the jump in technical subcontractors which has gone from INR2 crores to INR5.35 crores? I presume you took them off the roles and hired them as consultants?
- Abhishek More:** Many of them they were off the roles. They were taken as what do you call that consultants just for the heck of it. Yes. And then obviously there was some subcontracting also done when the work suddenly started coming in. So that is why the technical subcontractors has gone up.
- Sandeep Dixit:** Okay. Thanks. The next question is, you mentioned \$25 million as your goal in two years' time. So is that FY '26 two years or FY '27 two years?
- Abhishek More:** FY '26.
- Sandeep Dixit:** Okay. The last question is, on your earlier call, you had mentioned that your PAT margins will be 30% to 35%.
- Abhishek More:** No, I'm sorry. I'm sorry, sir, but in none of my calls, we've ever mentioned the PAT margins as 30% or 35%. Never, ever. We've always mentioned the PAT margins to be between 24% to

26%. And they were to increase that by 1 percentage or 2, but we've never, ever discussed 30%-35%.

Sandeep Dixit: Okay. So maybe I got this wrong, but I think this was a discussion regarding direct work. You had mentioned that you aim to get to a mix of direct projects of about 50%.

Abhishek More: But this year, that is our target, to have at least 50% to 60% of direct work compared to outsource.

Sandeep Dixit: Okay. So that 25% PAT margin you are guiding right now is based on a 50% direct project, right?

Abhishek More: Because the expenses, if we were only India-based with no major overheads in the US and Canada and if my direct work grew from the current, let's say, 25% to 50%, my PAT margins would go up to 30%, 35%, correct? But what is happening is that even though my direct work ratio will go up, but my overheads because of the high salaries in the US have increased. So that will offset the part margins and keep the part margins yet in the 24%-25%-26% range.

Sandeep Dixit: Okay. That's good enough. Thank you. I just wanted to clarify that.

Abhishek More: Correct. Thank you, sir.

Sandeep Dixit: Thank you very much.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Yes. Thank you for the opportunity. I want to understand your business. So you said it's a project business. So do you build on completion of milestones or do you build on manpower basis? How does the client give you the work?

Abhishek More: No. Building is never on manpower. We get, let's say, a job which could be anywhere from 10 shots to maybe 500 shots, 700 shots project. We estimate the cost. We send them a quotation, not in terms of many days or anything, a quotation, let's say, shot-wise. This shot is going to cost \$1,000. This shot is going to cost \$500. This shot is going to cost \$3,000. So if there are 500 shots, there are 500 Excel line items with a cost for each shot.

It really depends now when you're talking about milestone-based or at the end of the project. There are various factors in this. Client, value of project, type of client, whether direct client or outsource work. So this is not one-size-fits-all. If the project is, we typically see if the project is over \$40,000, \$50,000 or \$70,000, then it will take milestone-based. But honestly, it's a matter of saying milestone-based.

Let's take a list to client like Apple. We just did a show with Apple. In a client like Apple, Disney, there are 20 levels of approval that they need. While the contract may say 50% or 30% on award, 30% after delivery of X number of shots and 30% after that. I have seen where we've delivered 80% of the project and we're yet waiting for the award, if 30% on award money to come. They have too many levels of approval.

These are all very good things to say. And we're not in a position, because these are all time-bound. The TV series, the film, these are all time-bound. They have release dates. So everybody is under tremendous time-bound pressure. So I cannot tell them, you give me my 30% advance, I'm not starting otherwise. But most of the industry does work that way. So it's a hypothetical situation to say.

Tushar Sarda: No, no. I'm not on payment, I'm asking how do you book the revenue?

Abhishek More: We booked -- it's not mandays-based, it's not hourly-based, it's a pure cost that we give them. Based on our calculation of how many mandays are being used and what is our manday rate, we multiply that. But they don't know the internal working of that obviously.

Tushar Sarda: So you book based on work done or you book based on billing? That's what my question is. Because that will impact how revenue comes in the book. So its become very large...

Abhishek More: I can't book on what's done, right? I have to book on...

Tushar Sarda: I don't know how you do it?

Abhishek More: Billing can be two types. One billing can be when the project is completed and one billing can be milestone-based billing. So it really depends from client to client and project to project. It's not that every project is at the end of the project we bill and every project we get milestone-based.

Tushar Sarda: So to relate that question, what is the average size of the project and average duration of the project?

Abhishek More: As on today, when we look at direct projects, the average size of the direct project we are experiencing is around \$150,000-\$200,000 maybe for a direct project. When we do outsource work, let's say a large VFX studio in the US, there, it's not really project. We don't get project-based. One week, they'll send us a bid. We send them back, award it. Next week, they'll send us more bids, award it.

So there, it's mostly they keep sending us bids every week. There are certain clients that send us bids every three days or four days. As they keep getting shots, we keep delivering. We work on multiple projects with them at the same time. So to really give you an average value per project that is more relevant to the direct project that we do, where it is around I would say \$100,000-\$150,000 is a great average that I can consider.

Tushar Sarda: And what time does it take you to complete the project?

Abhishek More: Let's say a \$100,000 to \$150,000 project would be delivered in a month, month and a half max. If it's a \$300,000 project, it could go up to maybe three and a half, four months.

Tushar Sarda: And you don't subcontract, right? You do all the work in-house except subject, technical people, they are hired, but are they in-house?

- Abhishek More:** There are times when we also have to subcontract a little. We have verified vendors. It's natural because let's say my Roto team is full, already doing work. I get another project at that time, which involves Roto. So all VFX studios work together very closely. And this is -- it's a very weird industry, by the way. It's a lovely industry because nobody considers each other competition. We all get work done from each other when the time comes, which is technically subcontracting. So a lot of VFX studios work very closely with each other.
- Tushar Sarda:** Thank you. Thank you for your answer.
- Abhishek More:** Thank you.
- Moderator:** The next question is from the line of Vedant Sarda, an individual investor. Please go ahead. Hello, Mr. Vedant. Your line has been unmuted. Please go ahead with your question. Hello, Mr. Vedant. Your line has been unmuted.
- Vedant Sarda:** Hello, Abhishek.
- Abhishek More:** Good evening, Vedant.
- Vedant Sarda:** Yes, good evening. So my question is about the increase in the cost of technical subcontractors and the decrease in the cost of employee benefit expense. Are they related?
- Abhishek More:** Yes. I just answered that sometime back, Vedant.
- Vedant Sarda:** Maybe I am missed that.
- Abhishek More:** So I'll tell you what. So during the period of December-January, since there was --like I said, there's always a slowdown, A, during that period and B, the effects of the strike which we had to reduce some manpower. And then suddenly, which is natural, that January end, the work comes up, but you don't get manpower. It's almost like you call up today and come back tomorrow.
- So that is why -- and obviously, there are some people who are on contract as well. So that is why the reduction in cost of the manpower and increase in the cost of technical subcontractors. But there's also some outsourcing that happens at that time.
- Vedant Sarda:** Yes.
- Abhishek More:** If the work suddenly comes in with a flow, when the work suddenly comes in in large chunks, it's not that a 100% team that was delivering 100 shots can suddenly deliver 200 shots, just because the work has come in a large flow.
- Vedant Sarda:** Understood. And what about the H1 to H2? Is it maintained? Is the seasonality maintained in the next two years? What are you expecting on that?
- Abhishek More:** Historically, we've always seen H2 weaker than H1. But again, like I said, nobody can say, because I could get a huge project in H2, and this is project-based, and I again explain that, right?

When a client is giving me a project, I cannot say that, give me half now and half in next half, because so that my H1, H2 looks safe. If a project comes, we take it, right? So there will be years when H1 is strong. There will be years when H2 is strong. But in 9 out of 10 cases, H1 will always be strong.

Vedant Sarda: Okay. Thank you, Abhishek.

Abhishek More: Thank you.

Moderator: Thank you. The next question is from the line of Amit Jain, an individual investor. Please go ahead.

Amit Jain: Actually, I'm not happy with the quality of the statement which you signed in the auditor time. If we go to the contributor statement, there is a silly mistake. Like, if you see the half yearly, 5,35,000.61, then in September 2023 half yearly, you have just put 212. And then, 2 divided by 748. So how to do the mathematical calculation?

Abhishek More: Which figure are you talking of in the consolidated?

Amit Jain: Consolidated pre-ended account. You can go to that. Let me take the example of all the technical components, sir.

Abhishek More: Just give me one second. Sorry. I can answer your question only if I see it. So just give me a second. Consolidated. Yes. Okay. I am at consolidated P&L.

Amit Jain: So let's go to the line of the cost of technical subcontractor.

Abhishek More: Yes.

Amit Jain: You can see here, 5,35.61 for the half year ended, 31st March 2024. And if you see half year ending, 2023, September 30, 212. Rounded off. So how to do the calculation of the full year?

Abhishek More: Understood. I appreciate that. And that is something which we need to take a note of. And I appreciate the feedback on that. That shouldn't have been rounded. And that should have been given in the points, like March 31st, 2024. I really appreciate that.

Amit Jain: And surprisingly, your auditor quality – auditor also signed. I am actually surprised. Now coming back to the technical question. Okay. So there was just a feedback related to the corporate governance. Okay. Let me come back to the question. You said in the initial question that you normally your client pay between 60 days and 90 days. Am I right?

Abhishek More: Normally?

Amit Jain: Normally your client, the client's payment is basically 60 to 90 days.

Abhishek More: You took at average here 60 to 90 days there. But now in the last few months, it's not been the same. We are experiencing 120 days right now.

Amit Jain: No, no, I am not even experiencing 120 days. It is more than six months. If you see your revenue, okay, of half year is INR22.44 crores. Am I correct?

Abhishek More: Right.

Amit Jain: And INR24 crores. Okay, let me take other income. I should say INR24.62 crores. Am I right? Your half yearly revenue? And your data is more than that INR24.70 crores. So basically you have the outstanding of more than 180 days, six months.

Abhishek More: No, I am not able to understand your question. Sorry, you have to just repeat that.

Amit Jain: Okay. So let me tell. What is your total revenue for the half year in March 24? INR24.62 crores. Am I right?

Abhishek More: Yes, correct.

Amit Jain: Okay, and you said right now it is stretched and you are getting the payment in rather than 60 days or 90 days, you are getting in 120 days. Am I right? You said this?

Abhishek More: Yes.

Amit Jain: Okay, if I match this with the debtors, share receivable in the balance sheet, your outstanding amount is INR24.70 lakhs, more than six months revenue. Am I right?

Abhishek More: Yes, because we have debtor. I will tell you as an example. We have even older debtors. Let me give you an example of Tippet Studio. Tippet Studio is a debtor of more than 18 months to us just now. They have just declared bankruptcy after being taken over by Phantom. So you can't -- we actually have certain debtors which are even older than six months.

Amit Jain: But in total number of them you have more than six months. Have you provided provision for bad debts for that? Because it is 18 months?

Abhishek More: Sorry?

Amit Jain: Have you done the provisioning of the bad debts? Because it is more than 18 months?

Abhishek More: Provisioning of?

Amit Jain: Bad debt?

Abhishek More: We can't provision a bad debt right now. They have gone into Chapter 11 and we have got our team in the US for recovery. So how can we put that as a bad debt? If we put that as a bad debt, my Chapter 11 recovery case has no standing.

Amit Jain: According to the Indian accounting standard and in fact even the IFRS, you are supposed to put the provision. I am not telling you that you put the Bad debts in the P&L, but you have to do the provisioning. You can check with your finance team who is checking with you?

- Abhishek More:** Okay, I am going to make a note of this also and check with our CA. But yes, we did discuss about the Bad debts side of this, but then that weakens our case against the recovery of that amount. So that is why we didn't put it.
- Amit Jain:** No, it works. It is a standard policy across the company. According to the ICAI, according to the company law also. So it works. It is an international practice?
- Abhishek More:** You are right. But if you see the aging of the all receivables, in that case, if it is required, and if it is more than 180 days overall, but if you go one by one party wise and aging of the billing, then you are required to provide. You are generally comparing all the amount with the sales, but this is not the case.
- Amit Jain:** Just a minute. Just now he said that one party is more than 18 months. Am I heard wrong?
- Abhishek More:** He mentioned one party only, but not all the parties.
- Amit Jain:** So that party, have you provided? This is my question.
- Abhishek More:** No, we haven't provided.
- Amit Jain:** So you are supposed to provide. You just said that you are supposed to provide, but you have not provided?
- Abhishek More:** No. Actually, what you are generally comparing, that's why I told you.
- Amit Jain:** No. my question is very interesting. He said before your session, even if it is not provided, I am asking about that and I don't know who is the auditor who signed up this balance in that. Because you are supposed to provide, if he has sent 18 months, you also agree 18 months. What is the content of that data, by the way?
- Abhishek More:** That's around INR50 lakhs. So I'm just saying. Point taken. We will discuss this with our auditor and see what you are saying. If it is a legal requirement, obviously that would be true. I am not arguing that point. Point taken.
- Moderator:** Sorry to interrupt, sir. I would request Mr. Amit Jain to please follow up in the question queue for further questions. Thank you. Due to time constraint, this will be our last question. The next question is from the line of Marutinandan Sarda, an individual investor. Please go ahead.
- Marutinandan Sarda:** Hi, Abhishek. Good evening. Can you hear me?
- Abhishek More:** Yes, good evening.
- Marutinandan Sarda:** Yes. I have a couple of questions. One is regarding your two-year projection. What you have given is that around INR200 crores is what we are targeting?
- Abhishek More:** For FY'26, that is correct.

Marutinandan Sarda: Yes, right. So, my question is that particular target will be achieved without any equity dilution or we will be in need of any capital in the form of equity or debt?

Abhishek More: Honestly, we haven't given that a thought yet. If need be, we will do it if need be. But as of today, we don't see a need for that. So I don't think this is the right time to answer that, whether we need it or we don't need it.

Marutinandan Sarda: Okay. My second question is regarding data. The number is INR24 crores at the end of March. So we have already passed almost two months from March end. So what is the recovery out of that INR24 crores?

Abhishek More: We have recovered. That's why we are yet surviving as a company. Recovery is there. Obviously, not everything.

Marutinandan Sarda: Can you just put a number to that? Because that will...

Abhishek More: Honestly, I don't have that number right now. If you want to connect with me offline later on for that, I can. We didn't keep that number handy.

Marutinandan Sarda: Okay. All right. And my last question is regarding vision. Five-year vision of the company. How do you see, where do you see Digikore standing in the world map as far as VFX and the other things are concerned?

Abhishek More: So I don't -- our vision right now for everything that we are doing is limited up to 26. Why? VFX is right now at a cusp where we don't know how AI is going to impact it. We don't know whether like the writers, AI has been barred to be used in writing of films. Whether it's going to be barred in VFX, not barred. MPAA, that's the Motion Pictures Association of America and the studios, they take a lot of debates and discussions.

We are waiting and we are seeing it unfold. At the same time, like we've discussed earlier also, we are taking our own steps to ensure that Digikore as a company is supported by multiple streams of revenue within the industry or related businesses within the entertainment industry. So, assuming for any reason if, AI disrupts VFX and in fact, by the way, we are embracing AI.

We are not against AI. We are not the ones who are scared of AI. We are the ones among the few studios who have embraced AI. There's going to be a very interesting announcement from Digikore on the AI front as well. I don't know if many of you have heard of Sora. We've been able to crack our own version of Sora.

So, there's going to be a very interesting announcement on the AI front as well within the next couple of months from Digikore. So far, we are all our plans and projections are up to FY'26. So, maybe once we are halfway through this year or a little more, we will be able to give you clarity on maybe 27, 28, 29, 30 as well maybe.

- Moderator:** Thank you, sir. Ladies and gentlemen, due to time constraint, that was the last question for today's conference call. I would like to hand the conference over to Ms. Chandni for closing comments.
- Chandni Chande:** In the conference call of Digikore Studios Limited, if you have any queries, you can write to us at research at @kirinadvisors.com. Once again, thank you for joining the conference.
- Abhishek More:** Thank you, everyone. Really appreciate your time.
- Moderator:** On behalf of Kirin Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.