



**“Digikore Studios Limited Q2 FY-24 Earnings
Conference Call”**

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**MANAGEMENT: MR. ABHISHEK MORE – CHIEF EXECUTIVE OFFICER
AND MANAGING DIRECTOR.
MR. SHRINIVAS BEHEDE – CHIEF FINANCIAL OFFICER.
MR. PRAMOD JAIN, CHIEF FINANCIAL ADVISOR.
MS. HENY PAHUJA – COMPANY SECRETARY AND
COMPLIANCE OFFICER.**

MODERATOR: MR. GOPAL CHANDAK – KIRIN ADVISORS.

Moderator: Ladies and gentlemen, good day and welcome to the H1 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gopal Chandak from Kirin Advisors. Thank you and over to Mr. Chandak.

Gopal Chandak: Thank you. On behalf of Kirin Advisors, I welcome you all to Digikore Studios Limited H1 FY24 Concall.

From the management side, we have Mr. Abhishek More, Chief Executive Officer and Managing Director; Mr. Shrinivas Behede, Chief Financial Officer; Mr. Pramod Jain, Chief Financial Advisor; Ms. Heny Pahuja, Company Secretary and Compliance Officer. Now, I have handed over the call to Mr. Abhishek More. Over to you sir.

Abhishek More: Thank you. Welcome everyone to this conference call. I really appreciate you taking the time to join this.

Well, we are very proud that we are progressing well based on our forecasts and our plans. We are very much on track and we are looking at a much better future for the company. As we all know, there is a lot of traction in the visual effects industry and the film industry in general. And Digikore being a prominent player in this industry having been in visual effects for over 14 years now. We are among the more respected and more well-known studios across the world of filmmaking. That gives us definitely a huge advantage, in an Indian industry which has substantial entry barriers. As you must have already seen in during our filing and in our previous calls. We are among the very few studios in India, who are audited and approved by TPM, -- 2:17, Marvel, Netflix, Amazon, Apple, Paramount, Sony, Warner Brothers and most of the large production houses based in the US and Europe obviously.

A majority of our revenue, or I would say almost all of our revenue comes from overseas business. And the business is substantially growing with the hyper growth of the OTT platform which is led by the OTT platform and we are being benefited by that. The results for FY24 first half 24 are outstanding in its own way. We are very proud of what we have delivered. We stand by our commitment to deliver the best results by working hard towards achieving our goal.

I'm now putting the floor open to any questions that you may have on the results.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Pranay Jain from Deal Wealth Capital. Please go ahead.

Pranay Jain: I have a few questions primarily relating to understanding of the company and some indicative numbers if you can share, so first as I see, we've already clocked 70% of last year's revenue in the first six months of the year. And profits are even exceeding. So, clearly the momentum and operating leverage is showing, just wanted to understand what's our contract wins so far in recent months, and how is the order book looking like right now and is it executable over the next six to 12 months?

Abhishek More: Sure, I will answer that. Hi, this is Abhishek. So, a majority of our business really comes so far as a subcontractor. So, we don't have too many long term contracts project wise, but we have long term clients who send us work month-on-month on their various projects. So, if you ask me, what is our order book or contract that we have for January or February, it's none right now. But that's not the case that we are not used to because our business operates in that, we have almost 80 clients who on a regular basis are sending us work. So, if you ask, so the historical client numbers will show you that average, there are clients who average out a certain number per year. And we are seeing that same trend, in fact it increased a little recently because we've also added some more clients. Talking about numbers, this is something which is publicly available data, which we have announced several times. That when we started the year, we had a revenue target of 50 crores for the company. And we are on track to achieve / in fact surpass that number based on our first half results.

Pranay Jain: That's great. So, given the large roster of clients that we have, and I'm sure we are expanding relationships not just with the existing ones, but trying to grow new ones as well. Increasing wallet share, and like you said, there is a great buzz in the OTT world. So, can you tell us what are some of the key projects that we executed in recent months for which we recognize the business revenue and some forthcoming ones this year?

Abhishek More: So, there are over 50 projects, but yes the one that really stands out is the Marvels, which is releasing very soon. We are a key partner for Disney/ Marvel. So, we at any given time, we are working on several projects of Netflix, as well, we just worked on an Apple show, which we have towards the end it's a very big show, which is going to be coming on Apple soon, due to certainly obviously you will see our credits in that one that comes out. Due to certain non-disclosure agreements that we have, even we work on codenamed project, it's a general industry practice. All communication is typically codename in the project is officially announced by our partners. So, we cannot name projects right now. But yesterday, the Marvel's is going to be out in cinemas, that is one of the big ones that we have worked on.

Pranay Jain: Okay, and could you give us a spread of our revenue mix across movies and web shows or TV shows and commercials, just so we can understand how it splits up and what is our expansion plan in terms of team size, from what it is right now and as we utilize the IPO funds over the next 12 months, how is it going to look like to increase our services, our capabilities and our presence in other geographies which we are focusing on?

Abhishek More:

So, I'm going to give you two mix percentages right now. One is a mix percentage of between episodic and film, we don't do much of commercials honestly. So, between episodic and films it is almost 80% episodic and 20% films as of now revenue mix. In terms of our service mix, it is approximately 70% to 75% of subcontract work and 20% to 25% direct work with our client, when we get direct projects from Disney and Netflix and Amazon and all of these folks. Over the next 12 months, one mix that we definitely plan to change is the mix of services. So, our goal is to take up over the next 12 months the direct projects to approximately at least 50% for sure and over the next 24 months, we plan to take this to 80%. The reason being that when we get projects directly, we our margins are far better. And also the average value per project that we get to work on is also much more than getting subcontract work, because in subcontract many times it's bits and pieces of the project. How are we going to do this, we are going to do this by adding in some key talent, manpower in North America. We have already started hiring in North America, which is in mainly in Montreal in Canada and Los Angeles in US which are primary hubs for the visual effects business. In India, we plan to take our strength from the existing 400 by March we plan to take it to 500 and by December to 600. In the US and Canada, we plan to hire approximately 40 people by March this year. We have already identified and certain public key talent that is going to drive our business and revenues from sitting in that region. The benefit that we are going to get by having this key talent in that region is that this is going to increase our average ticket size or project that we get. Even today, when we get direct projects, our average ticket size is much smaller because we're based in India. But if the team based in North America, our average ticket size can almost become 3x to 4x, which will also lead to substantial revenue growth for the company over the next 12 to 24 months.

Pranay Jain:

Thank you for laying out your strategy elaborately, and clearly the building blocks are in place, I'll get back in the queue. But just a follow up to what you said. One, which are the areas of service that we are going to focus on, one which is emerging and growing rapidly, whether it is 3D animation, or gaming or out of home media. So, that is one, I wanted to understand compared to the areas that we are present in where we are going to increase our efforts. And second, as you said direct sourcing of projects is going to be a key focus area for us. So, can you give us a sense of what our pipeline is, in terms of the projects that we are targeting, and because the areas that you mentioned where we are going to hire key talent is somewhere where other listed peers as well as the other players are also focusing on. So, it's going to be quite competitive. And I know the world is large, but how are we going to try and put our foot hold and walk towards this, not just for one year, but on an ongoing basis.

Abhishek More:

So, this industry is largely relationship based, a lot of the business that actually comes is very dependent on relationships. So, as an example, if you've worked with me on a project in the past, you trust my delivery capability, there's a very good chance you are going to give me your next project, we have built those relationships. And even today, majority of our projects are either relationship driven or repeat client business or reference for that matter. The industry is too big, almost 800 series are in the pipeline in the making across all our OTT players, and this is only OTT I'm talking, if you look at television that number would almost double, films is another area where there is work to be done. Being a dependable player in the industry

automatically gets us in front of the queue, when the large studios are looking at vendor. A Marvel movie typically will never go to one vendor anyway, it would go to multiple vendors, they could be certain of these large big budget movies where even 15, 20 and 30 vendors across the world are working on it. It's not about what we are, how do we stand a chance to get the business we don't have the fear of that. We already have the relationships in place, because of which we are getting a smaller project since we are based in India. And the key talent that we are hiring in the US obviously come with their exceptional relationships the talent we are hiring right now at senior level positions are the ones who are having between 20 and 25 years of experience in the industry. And, they have worked over three and four and five projects with the same supervisors and same producers within companies. And so they get the project base to their name as well. So, these are the factors that we are looking at, to obviously grow the business. In this business, the film industry, cold calling is a very, it rarely works with a very heavy relationship driven business which we understand and our talent also that we hire also for our BBD, that we're hiring in the US. Obviously, we are hiring people who have deep connects and deep relationships and have a demonstrated history. More importantly have a demonstrated history of generating new business.

Moderator: Thank you. The next question is from the line of Aditya Shah from CJ House. Please go ahead.

Aditya Shah: Couple of questions. First question is due to the writer's strike that was going on along with actor strike. Did we see any, reduction on overall demand levels or will we see that impact in coming quarters and when will we see that demand build up again?

Abhishek More: So, obviously, the writer's strike and the SAG strike definitely. I will tell you what happens, the production has several stages, any production for that matter has several stages by cycle. It starts with the pre-production, then production and post-production. A lot of the projects which were towards completion of production are almost in production, they all were in completed production. They finished their editing and all of that. So, we weren't superbly impacted in the first half of the year because the pipeline of the post production side was yet going on for a lot of projects. Luckily the script writers' strike got over, it's been quite a while now it's been several weeks. And as per my connections that we have in the industry, a lot of the projects have started their pre-production because the script writers are really important for that. The pre-production has started, as we see the SAG strike, which we are hoping by this weekend, or latest early next week, it comes to an end because they are almost at an disagreement. Projects are going to go on floor, typically is that historically, a lot of the industry is on a hiatus from December 15th to January 15th typically, but this year we don't see that happening. Because a lot of people have lost a lot of money over the months, and they do want to work over the festive season as well. And that's the general feelers we are getting. It may create this whole story may create a dent maybe in November, and two parts of December for most visual effects studios, because it's rebuilding the pipeline, the production pipeline which is going to take place here. We have our strategy in place to semi offset that lull in the production side of it, because we are also in virtual production in a very big way as a company. So, the impact for us because virtual production is typically a production stage service, rather than a post-production service. Using

our virtual production technology and virtual production skills, we as a company will be able to generate substantial revenue. And in fact, this whole strike has become an advantage for us rather than a disadvantage as a company, because of our virtual production skills and our virtual production technology. And the fact that we are at a stage, they say that when the market is, at its bottom the investor who has the most money at that time makes the most money. Technically, as a company we are at that stage. While a lot of the VFX studios in the US and Europe are struggling, we are at a stage where we have the money to invest. And that will result in outstanding, long term results for us as a company.

Aditya Shah: Got it, that's super cool thanks for that answer. Just another question, which you kind of touched upon, do we have any sort of broad split as to how much of our revenue is from, let's say, virtual production, animation, versus a roto, green screen kind of thing?

Abhishek More: It's very difficult to split by service that mean roto, paint, because within paint there can be painting an actor, every shot can have little competence. So, we don't split between when we get a shot, a shot can have roto work also, paint work also. So, it can have compositing work also obviously. So, it's impossible to split within that shot, how much roto work has been done in that, we don't need to measure that as well. We need to obviously, measure in terms of how much work we did in composite, or 3G, because this is the end result, rather than the parts and bits and pieces that go into the end result. As a company, we do plan to focus more on the OD aspect of it rather than the CB aspect of it and obviously, our focus market is going to be episodic, rather than the big budget movies. It's a great space, long term projects, season after season we have seen that we get work on. So, for us the split that we try to see is CG versus 2D, when you say 2D that includes compositing, roto, paint and all of that that goes into that.

Aditya Shah: Okay, so 2D includes the roto paint compositing and rotoscoping, but we are more and that's the area that we want to focus more on?

Abhishek More: When we do outsource work, that is the time when we may just get rotoscoping or we may just get paint. But as we move forward with our setup in North America, which is Canada and US, it's going to be a rare situation in direct projects that you get just rotoscoping or just paint you will get shots, you get shots to complete. So, our focus is obviously going to be on that where we are completing shots. Even in India when we do direct projects, we get shots to complete, we do the whole thing in the shot.

Aditya Shah: Okay, understood. And how we mentioned that we have a strength on virtual production and that's I guess one of our USPs or some area that they are strong in. What are the couple of other areas where we think that we have more strength in compared to what's out there because there are hundreds of VFX studios out there?

Abhishek More: In the regular VFX side of it, which is your 2D VFX which is going to be our area of focus. I wouldn't say that we are better than A or B or C yes, we are definitely better than most, but there are many who are equal then us, there could be some who are better than us also, I'm not even

saying that we are the best in the world in the OD side of it. But we are good enough with delivering great work and our clients are happy. On the virtual production side of it, we do have a massive lead compared to any other studio in India, and many studios outside India as well. We have created a robust team for that and we've been working on that for over a year and a half now, when most people didn't even know what virtual production was. And we do foresee virtual production over the years to contribute substantially to our revenues. Today, it is literally zero, but we are at a stage now where we have started rolling out, we have started speaking to a lot of studios, virtual production studios in North America and Europe. And this year itself, this financial year itself we estimate virtual production to start contributing revenues.

Aditya Shah: Okay, got it. And why is it difficult for somebody else to get into this field, what is stopping them the question of the training, or you have to spend a lot to get the team?

Abhishek More: It's a different set of people that do it, it's typically a game engine that is used in virtual production, visual effects software are completely different. So, it's a very big mind shift for visual effects studios to get into virtual production. It's not that you can use the same team and, for virtual production you need a completely different team, your visual effects artists cannot do virtual production.

Aditya Shah: Okay, got it. And my last question here is, we are mentioning that we are going set up a couple of offices outside of India, Vancouver, London, XYZ. But already a large part of your revenue is coming from international. And, I don't think we had offices before this. So, what is the basis which we are making this assumption that setting up the offices there will substantially help us get further business, just wanted to understand how we know this?

Abhishek More: Sure. So, #A is the offices, so far we just had we didn't even have the physical offices, per se, we had certain people who were promoting our services on the business development side of it. All the delivery was being done from India. Like I explained a few minutes back that, when you are completely an India based studio, the mid to large scale VFX projects are rarely given directly to an Indian studio, the Disney's, and Warner and Paramount's they do not trust an Indian studio to deliver mid to heavy visual effects, for that they need to see talent, which is production talent, and creative talent, based in the US and Canada. And that's a fact I don't completely not blame them. We've done projects in the past where we struggled also when it came to high end because the Indians don't have that much experience. And so, not that we cannot build it, we did built it in fact having our team in the US and Canada, which is going to be a creative supervisors and visual effects supervisors and senior compositors, the advantage of having those is also good, they are going to be upping the skills of our team in India, which is great for the industry also as a whole. So, for us to bag those mid to larger projects it is important that we have certain key creative and production talent based out there.

Moderator: Thank you. We will take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

- Deepak Poddar:** A few things I just wanted to understand. Now, you mentioned that we are likely to increase our direct project or the work from direct production house to 50% from currently maybe 20%, 25% in next 12 months, and maybe in two years to 80%. So, how do we see then the margins, what's the margin differential in direct project versus outsourcing and how then we see our margin progressing, once this share increases to 80% as direct production will have a much better margin rate?
- Abhishek More:** Yes, definitely. We are definitely going to be experiencing much better PAT margin as we progress from outsource work to direct projects and which is what we have also seen in our historical PAT margins. Every year as we increase our share of direct projects our PAT margins are increasing. It's a natural thing to happen because, direct projects definitely have much better margins and outsource typically, when you are giving it to an outsourced vendor, everybody knows the vendor rates in India and the cost of production. So, we definitely margins will increase as we move towards direct projects.
- Deepak Poddar:** So, what would be our aspiration, currently already we are at about 25% kind of a PAT margin, right?
- Abhishek More:** We are at 25% our target to touch over the next 24 months is somewhere between 30% to 35%.
- Deepak Poddar:** 30% to 35% PAT margin?
- Abhishek More:** That is our target.
- Deepak Poddar:** Okay. And you mentioned, we have approvals in all the big houses, Marvel, Netflix, Sony, Amazon, Hotstar, Paramount, Apple, and we are one of the very few among the peers who would have approval with such big names. So, ideally, I would believe that for you to scale up the direct project would be much easier, as compared to any of your peers. Is that the right understanding?
- Abhishek More:** Absolutely. So, we have crossed the biggest hurdle, which is of approval. Once we have crossed the hurdle, now the next logical extension for us is to increase our share within the pie of that client. So, let's say a Marvel, or a Netflix or a Disney, we are getting an x share, because we are based only in India, once we set up this team in the US and Canada, we are able to bid for and bag, larger projects of their which have more creative demands. So, obviously, see the industry, the majority of the work, I would say 80% of the content is produced from these eight or 10 players worldwide. And luckily, we are approved by all of them. So, today, we have a much smaller pie from within these players, now we have to try to increase our pie within these players.
- Deepak Poddar:** Correct. So, do you see that our capability can be a constraint, in terms of our you did elaborate on the hiring talent and all, et cetera. But in terms of the technical talent do you see that can be the constraint or was the constraint in last one to two years which didn't allow us to increase the share in spite of having these approvals?

- Abhishek More:** Absolutely. So, it's not only our creative talent, so certainly what this industry works in certain weird ways, but then that's the way it works. I don't know whether you're aware, but there are certain regions in the world which offer tax credits, as well. So, there are two things that stop us from getting those larger projects, one lack of super high end creative talent in India, in terms of let's say a visual effects supervisor who has supervised the Marvels or Wakanda Forever. So, visual effects supervisor who has been the supervisor for that, obviously has what it takes to them supervise any level of visual effects, that is one. So, we are now hiring those level of people in our teams in Montreal, and Los Angeles. Second, it is a very standard industry practice, where studios let say Disney is making a movie, they are instructed to make certain spends in certain regions to benefit from the tax credits and for the commitments that they have to make in that region to avail of the tax credit, I don't know who all are aware of this tax credit business or no. But, I'll give you a quick brief on that, that there are certain countries like Canada, UK, certain regions in Eastern Europe, even UAE, they offer rebates in the form of tax credit, so if you spend a \$100, in Montreal, the Quebec government gives you back \$40 in terms of a rebate, and they actually give that physical money. So, a lot of productions have directions from their topmost level because they have to commit a certain spend in that region. So, let's say there's a movie which has let's say a \$10 million VFX spend, they have directed that they have spent \$2 million in Quebec, \$2 million in this region, \$2 million here, and then they can send so much to India. So, while India would have been probably the cheapest, but because they have to meet certain production spends in that region. So, in terms of physical production, post production, whatever. So, that will also then benefit us because Quebec, we are forming our setup in Montreal. And Quebec, state of Quebec offers the highest tax rebate in terms of state anywhere in the world literally, up to 40%. That is why a majority of the visual effects studios in Canada, are in Montreal, and most production houses are wanting to go to Quebec based companies for the tax rebate share of their spend. So, that also automatically get quite a bit of revenue just by being based in Quebec.
- Deepak Poddar:** So, after this subsidiary now that we are set up so now it will be much easier for us to get the work?
- Abhishek More:** Absolutely.
- Deepak Poddar:** So, this is a very fair point, I was not aware of this rebate part this would help you substantially. So, just my last question so, in terms of top line you did mention that we will look to get pass this 50 crores, maybe 55 crores. But how do we see the trajectory on FY25 and 26?
- Abhishek More:** So, FY25-26 we haven't declared publicly yet. So, we would want to do our internal workings for that. So, I don't think this is the right call for that.
- Deepak Poddar:** But at least, the traction that we have been seeing for last two, three years. So, that traction, we can expect to continue?
- Abhishek More:** Yes, absolutely probably more. It is only going to increase.

- Moderator:** Thank you. The next question is from the line of Rahil Dasani from Mittal Analytics. Please go ahead.
- Rahil Dasani:** According to your previous statement, you said that the international production houses do not trust Indian firms as much. So, you being audited by almost majority of the production houses International isn't that enough?
- Abhishek More:** So, the audits that these international companies do is not a creative audit, it's more of a security audit and even PPM really does a security audit. There's nobody who can do a creative audit. Creative people be changing, so there's no question of trust or no trust based on that audit, because that's not a creative audit.
- Rahil Dasani:** Okay. And secondly, you said that, you can 3x to 4x your ticket size as and when you set up offices there. So, is it solely based on the 40 employees and their contacts?
- Abhishek More:** See its not only 40 employees and the contact, you must understand that when I'm bidding based on Indian based manpower, versus while I'm bidding on the same shot on a Canadian based manpower, just because of the dollar parity itself, my cost of that shot is probably 6x to 7x automatically. So, if a American company gives that same shot, just hypothetically where an Indian company would do that for \$100 just because I'm based in Canada, my cost would be \$1,000 for that, because of the cost of manpower out there, why does that American company give that shot to Canada and not to India when India would do it for 100 and Canada do it for 1000 I just explained that, they have certain commitments based on a global level rebates that they get on the projects. So, they have to make certain spend in that region to avail of those rebates not only in post-production, but also in production on a global level. The dollar parity by itself makes a huge impact on, I will tell you as an example, average artist in India, we calculate certain revenues per artist, per year. Same job done by an artist in US and Canada could be anywhere between 8x to 10x of that revenue per year, not because that person is more actor and can deliver better but just salary structure.
- Rahil Dasani:** Okay, got that. Lastly, what percentage of our employee base is currently into roto and paints?
- Abhishek More:** What percentage of our current employee base is in roto and paint, it's a great question. I don't have the exact number but of the head, our employee strength can mean two things, global employee strength that is of the company or are you talking of production, revenue generating artists as the base?
- Rahil Dasani:** Revenue generating artists?
- Abhishek More:** Within revenue generating artists, almost I would say 70% of our team is roto and paint.
- Rahil Dasani:** Sorry to confirm but 70%?

- Abhishek More:** 70% of the revenue generating artists are roto and paint, the remaining 30% are composers, camera tracking, match move.
- Rahil Dasani:** And lastly where would that number be post the expansion increase in employees and all?
- Abhishek More:** So, post the expansion obviously the compositing team would increase substantially. roto and paint obviously are key services within the entire shot delivery pipeline. So, even if there is compositing, there is roto. So, it's not that we have compositing, there is roto, roto is a support service to compositing. As our compositing work increases, roto increases also proportionately.
- Rahil Dasani:** Okay. So, to confirm it, you don't get standalone roto projects, is it complementary to your other services?
- Abhishek More:** No, today we do from outsource, when we do outsource work we get just roto, just paint, just camera tracking, just shot. But when we do direct projects, we don't get roto just paint it is the shot by itself. So, indirect projects, we do the compositing. So, when we bid for direct projects, we don't bid roto so much and paint is so much we bid for the shot, the entire job that's involved in the shot, which is the end product which could be compositing the shot, maybe. And the roto and all so that is internal.
- Moderator:** Thank you. The next question is from the line of Sandeep Dixit from Arjav Partners. Please go ahead.
- Sandeep Dixit:** Just wanted to understand all the investments in people you are going to make. Just wanted to understand can you put the numbers of the increase in the employee costs, with this new hiring in the US and Canada. So, you had 90 crores as the first half as your labor cost, employees plus technical contractors. What is that likely to go up to?
- Abhishek More:** Sorry, for some reason, it gets muffled for me. Can you just repeat that please?
- Sandeep Dixit:** Yes, sorry about that. I said that, what would be can you put some numbers to how much your staff cost, labor cost are going to rise. It's about 90 crores in the first half?
- Abhishek More:** So, see our India cost are not going to rise substantially over the next six months in terms of percentage of revenue. Our international cost obviously, but that is going to be in the subsidiary, all those costs are going to be in the subsidiary, because they're going to be employed by the wholly owned subsidiary of Digikore Studios. Standalone of Digikore will not increase in terms of percentage.
- Sandeep Dixit:** But on a consolidated basis it will right, so what would be the increase?
- Abhishek More:** So, if we are hiring a team of 40 people that are going to be progressive over the next six months, we are going to have it from day one. A very conservative number also, let's say post March

because that's when we have let's say financial year 24-25. It is going to be 40 into an average of 10,000. It is going to be salary cost around \$400 to \$5,000 a month in our subsidiary.

Sandeep Dixit: \$400 to \$500,000?

Abhishek More: A month.

Sandeep Dixit: For all those 40 people together?

Abhishek More: That is correct.

Sandeep Dixit: Right. So, we are roughly talking about jump in labor cost about \$6 million?

Abhishek More: That is correct.

Sandeep Dixit: And incremental revenue for those will be in what range?

Abhishek More: We are yet working on our projections for 24-25. So, that's why I just said sometime back that this is not the right forum, because unless we don't finalize that we cannot publicly disclose that.

Sandeep Dixit: Fair enough. Can I assume that we will have roughly on a consolidated basis, roughly the same percentage of labor cost to revenue or will that rise, will it affect margins that's what I'm trying to understand?

Abhishek More: So, yes margins are not going to get affected on a consolidated basis, we're going to be extremely careful of not, forget affecting our goal is towards increasing the margin because we just hope sometime back that, over the next 12 months our efforts are to increase direct projects rather than outsource. Secondly, the team that's based out there, we cannot do outsource work with them obviously. So, they are going to mainly be always be involved in the direct project side of it.

Sandeep Dixit: Understand. So, just to summarize, my understanding is that there will be some lag because of the cost will come in first and maybe revenues will follow later. But on a sustainable basis you will see a 35% net profit margins by FY25, FY26 am I correct?

Abhishek More: Absolutely, the lag is going to be there because the objective of the IPO was to spend in increasing, strength our teams and that is the idea of working capital. So, the idea of the fundraise is to strengthen our teams, not only in India, but also in North America, there is going to be a lag and there is the reason for the capital fundraise.

Moderator: Thank you. We will take the next question from the line of Pranay Jain from Deal Wealth Capital. Please go ahead.

Pranay Jain: I wanted to understand that our focus remains on overseas projects. But animation and VFX work in some of the domestic movies has been increasing quite a bit in the last couple of years, also the OTT content here in India. So, are we finding any attractive work over there or is there a conscious decision not to enter here because maybe the payment terms are not as lucrative or whether the value of work is not as great, wanted to understand about your domestic piece?

Moderator: Ladies and gentlemen, thank you for patiently holding the line for Mr. More is connected now. Over to you, sir.

Abhishek More: So, the amount of content that's produced in Hollywood and different parts of the world is 1000, or more times than what Bollywood produces in terms of value. And obviously, the visual effects basket is again, the same. So, we have one advantage at a location and one disadvantage at a location. So, our biggest advantage is that, we have crossed that entry barrier into Hollywood, which he has spent 13 years by getting all these approvals, where more than half the visual effects studios in India do not have them, so they do not have access to that market. So, that's our advantage. We want to play that to our advantage. So, even if we are able to get, over the period of 5% pie of Hollywood, that's several, several million dollars in revenue for the company, that's over \$100 million in revenue for the company. At the same time, Bollywood, the whole of Bollywood probably producer spends only \$100 million in visual effects every year. How much of the pie we are going to get in a market where we are at the back of it, because the leaders are the ones who are based in Bombay and South who have a presence there. And the pie is also very small. They are based in Pune, strategically we don't have that advantage to get into Bollywood, we would have to setup a facility in Mumbai, not that we are averse to that. But we do believe that the growth rate and the numbers that we want to achieve, for us to achieve those exponential growth that can only be done where the pie is very big, that means the pie is worth a few billion dollars, which is Hollywood, we have a huge strategic advantage out there compared to our competitors. And it's logical to make use of your strengths rather than your weakness. So, we chose to make use of our strengths and that is why we want to focus on Hollywood and international markets.

Pranay Jain: Understood sir. And you mentioned earlier on the call that there are some regions which offer tax rebates therefore incentivizing more VFX work over there. Where Quebec is the highest globally, which are the top five hottest regions in the world where such work is increasing. And, I believe that Indian companies like us would also grow presence over there over time?

Abhishek More: Yes, absolutely. So, within Canada, every state has its own tax rebate percentage, but all the states do offer that is Quebec, British Columbia, all of them have their own British Columbia has around 35%, which is basically Vancouver. So, all of the states their offer, London, UK offers tax rebates it's 25%, the Eastern Europe, Hungary they offer around 30%. Saudi Arabia has now started offering 30%. So, they're really pulling in a lot of people to film in Saudi Arabia. UAE also offers tax rebates. So, a lot of regions around the world offer tax rebates and that is why you see a lot of production is moving out from LA. Most visual effects studios are shutting doors in LA, because it just doesn't make sense for them to operate there any longer.

- Moderator:** Thank you. The next question is from the line of Aditya Shah from CJ House. Please go ahead.
- Aditya Shah:** Just on this tax rebate part only we've been discussing, you mentioned that the tax rebate would be let's say, 35%, 40% on the best case, but the cost of the production itself will be five to seven times. So, not being able to understand how does that make feasible sense, if something in India, we can do 100, outside India, and even, let's say Quebec will cost you 500 700. And a 40% discount on that, assuming the entire thing?
- Abhishek More:** No, because you are looking at it only in the perspective of VFX, or whether Netflix goes to let's say, Quebec, or British Columbia, it's not only about the VFX, let's say they're also filming there, they are doing the edit there. So, it's a global budget pay, they have to make a global budget spend to get the tax rebate. So, what happens is, they are also pushing the VFX into it, let say we are losing in VFX, but on the other end, we are gaining out of that.
- Aditya Shah:** Okay, got it. And if you have, let's say so the production house will get the tax rebate, not the studio itself?
- Abhishek More:** No, so the tax rebate works in such a way that if Netflix has given the work to Digikore, Digikore obviously provides the paperwork to them. But the government pays Netflix direct, we get paid in full. And Netflix, after some time, the government pays Netflix the money back.
- Aditya Shah:** Got it and they will pass on whatever it is for you?
- Abhishek More:** No, we get paid for our services in full, for us it doesn't make any difference. Whatever we have bid, we get paid for that. They don't pay us after they get paid the rebate.
- Aditya Shah:** Okay, got it. And if we let say if Digikore is setting up a studio in Quebec and billing Netflix, while the backend work is being done from India. However, the billing entities your studio in Quebec, your subsidiary in Quebec. Does Netflix still get that tax advantage then?
- Abhishek More:** No, it's a very strict thing out there. And we don't plan to cheat even 1%. The rebates are only for Quebec resident labor, or our actual spends which has happened. So, today let's say what you are saying is right it does happen, and a lot of companies have, even global companies like Technicolor or Remake and all have several offices. So, if we get a project, a lot of paperwork increases at our end because let's say in this project, certain tasks have been done in Quebec, and certain tasks have been done in India, we have to give the full declaration with the costs, with proof of what has been done in Quebec, what has been done in India, then Netflix will only go to the government with an ask for rebate for the tasks that have been done in Quebec by Quebec residents. It's not also, other thing is that I cannot take an Indian guy and make him sit in Quebec, that person has to be a Quebec resident.
- Aditya Shah:** Okay, understood. But, what it sounds like is while that will help us be sort of a foot in the door where at least we'll develop the relation and then whatever we can do in Quebec, we do that but will help us do cross selling into India.

- Abhishek More:** Yes, because all the companies do it. It's not that today if I take a \$10 million project from Netflix, the entire 10 million is done in Quebec, they all know that 10 million probably, 6 million or 7 million is done in Quebec, 3 million is done in India and they also tell us that so much has to be spent in Quebec and this much you can take to India, which is all planned. Nobody cheats anybody out here, because it can be really harmful to the business. We are very careful about that. So, there are proper auditors who will come and audit all of this.
- Aditya Shah:** Got it and just one last question was on the margins part. One is, what do we feel would be some sort of sustainable margins going ahead on the EBITDA side?
- Abhishek More:** You are talking of EBITDA or PAT because so far we've been talking PAT, so I'll just continue on PAT for the benefit of everybody. So, I did mention some time back, our endeavors are towards taking the PAT margin to somewhere between 30 and 35 on a long term basis.
- Aditya Shah:** Got it and on the same point about margins, if let's say let's take a constant case of, let's say subcontracting, if we're doing compositing or something a little more complex versus green screen and roto work which is a little generic, what is the kind of difference in revenue we get per mandy like 10%, 20% or is it similar?
- Abhishek More:** Compositing can be twice that of roto. But also the people are more expensive.
- Moderator:** Thank you. The next question is from the line of Sandeep Singh, an Individual Investor. Please go ahead.
- Sandeep Singh:** Abhishek very well explained, in fact most of the points which any investor would have liked to know you have already explained in detail so, thanks for that also. I'll probably take a little off question around the capital allocation, policy or intent of your company and you as a CEO, do you have any intent to go into production side of business or distribution side of business, because that will be quite a bit of a distraction for some of us, as an investor who think of Digikore as an asset light business, probably some of us are also comparing this industry with IT industry, which is a cash generating business, obviously in hyper growth phase you need capital, for setting a long pace working capital, and all those.
- Abhishek More:** It's not about we are planning to go, we have sort of ventured into that. But we don't plan to do fictional content, or we don't plan to produce movies where we've made an investment first, and then we are waiting for the returns to come in. As a policy, we have only got into branded content production. So, we get paid by people to make content for them. So, it's like, it's literally like a service but we own that content. It's a zero risk, because it's not our money is not invested first, and we are waiting for returns to come. So, if you're going to see where, we are doing only branded content.

- Sandeep Singh:** Fantastic. And if you allow me to be a little more direct and insight, right now your name is all over India, on those billboards, and that advertising cost, et cetera is part of the project not coming from Digikore balance sheet?
- Abhishek More:** I'm sorry, what that?
- Sandeep Singh:** Right now, your name is all over India, on billboards especially with these Indian Angles.
- Abhishek More:** For Indian Angles, that is correct. But all this is something which has not been invested out of pocket. This is all a part of the branded revenue that we have received. So, Indian Angles by itself is already a profitable project. Even, we're not waiting for revenues to come on this project. We've already received the revenues to a large extent, the sponsors, the hoarding, the newspaper ads, and all that you see that is all sponsored by other people. Technically, we haven't spent for that.
- Sandeep Singh:** Fantastic, that was my understanding but thanks for confirming that actually.
- Abhishek More:** Yes, we haven't spent for any of that advertising it's all come from sponsors.
- Moderator:** Thank you. The next question is from the line of Arun Kumar an Individual Investor. Please go ahead.
- Arun Kumar:** I have a very simple question. As I was able to review the financials, there is a sudden jump in the net profit ratio. Is it because of the quantum of projects coming more from the international market or there's some another working behind it or you save some cost and manage good profit?
- Abhishek More:** No. So, #A is, if you look at that 22-23 numbers versus half year 24 there is no major jump in the profit ratio. Yes, pre that is 20-21, 21-22 were a dependence was more on outsource. But over the last two or three years, if you see our revenue has also increased substantially because of our move, and real focus shift from outsource, to purely outsource to getting direct projects. And like I've been saying all this while, direct projects ads offers much better margins compared to outsource. And that is why you are seeing not only a revenue jump, because all of this approvals of most of these studios from Disney, Marvel, Warner all of this have happened really during COVID. So, if you see the jump of revenue also it is post COVID and jump in margins also it is really post COVID.
- Arun Kumar:** Okay. My last question is like, as you mentioned that you are planning to hire some people in your international subsidiaries, so we plan to have them on a remote basis, or there will be some physical offices that will be setting up and the added cost for those as well?
- Abhishek More:** Currently, obviously it is going to be like a fully functional company. Currently, the talks that we are having with the teams out there, is that the operation is going to be remote, not because we want it to be remote, because most of the talent out there has now got to use to working remote. Unlike India, where most people stay within city limits, it's a very general, pay for like

works in larger cities abroad, is that within city limits it's typically the commercial establishment and most people stay an hour away, hour and a half away, people are too used to now living out there in their houses, and it's not only us, most VFX studios, in most parts of the world outside India operate remote. So, we have no option because if we try to pull people into the facility, we may not get good talent.

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

Anand Patel: So, sir I need to understand regarding this content production, we get paid around 20 to 30 lakh per episode. So, what is the revenue potential for this, and what are the margins in this?

Abhishek More: So, that's what I'm saying that our model of content production is not like what most, or what you are thinking or what most people do. So, we are not on margin basis, we are not doing the content production for Jio. So, Jio does not own this show, Jio does not pay us anything. And it's not that we get a percentage of what Jio is paying us. Our shows are very uniquely made and we plan only to those kinds of shows which is called as branded content, which is advertiser backed content. So, once we have our sponsors and advertisers on board, we create the property, our margins depending on show to show can be as high as 50%. Obviously, considering the company margins that we want to keep, we typically are creating shows which are going to be giving us minimum 25%, 30%. Our endeavor is to do shows which are giving us 50%, we own the IP of our shows. So, it's not like your regular fiction shows where channel would commission it. And they would give you let's say 25, 30 lakhs per episode and most people out there get margins of only 7% to 10%, but our shows are structured differently. And that's why we enjoy good margins in our shows and we plan to continue only those kinds of shows and not commission shows because that will kill our margins.

Anand Patel: Okay. So, I just want to understand that, can it be a drag on our VFX business margin that's it?

Abhishek More: I'm sorry?

Anand Patel: I just wanted to understand that, can the content production be a drag on our VFX margins?

Abhishek More: No, it will compliment and in fact help better over a period of time.

Anand Patel: Okay. And sir my second question is regarding AI, is AI risk to roto and the general work which is 70% of our top line?

Abhishek More: See AI is a risk to every industry. So, let's face it, we cannot fight technology and we cannot fight change the only thing constant in the world is change. Either we can fight it or adopt it. We have learned to and chosen to adopt it. We are using AI to our advantage. Yes, it will lead to in the short term it may lead to certain loss in jobs not to the company, the company will not get affected, for the company it will be a benefit only, because I'm able to now get that same job

done by one person which would take five people to do. So, when a technology is a threat it is a threat to the job industry really and not to the company by itself.

Anand Patel: Okay, and can I ask one question more, the international overhead just to confirm you said It's around \$4.5 lakh per month or per year?

Abhishek More: For what?

Anand Patel: International employee cost is around the \$4.5 lakh per month or year sir?

Abhishek More: Per month, but these are all estimations, we haven't hired those 40 people. Once we hire, somebody asked me what we approximate. So, these are proximate numbers, but that is per month. We yet have to prepare our projections and the projected P&L for 24-25. So, these numbers, please they have no value today, because we haven't prepared a P&L to 24-25. So, these are probably just numbers in the air right now.

Anand Patel: And, sir just I saw the advertisement of this supervisor or manager in LA, so have we already recruited or what stage is it?

Abhishek More: We are in the process of closure which several, we are discussing with almost quite a few people in LA and Montreal. So, we will be hiring them very, very soon before the end of this year, the key talent.

Anand Patel: And just want to share a good news that the strike is already over. And it is in the news.

Abhishek More: Great, fantastic reason for all of us to celebrate.

Anand Patel: So, what are the usual lag period when we get orders after the strike is over?

Abhishek More: After the strike is over, there are going to be projects which are going to go on floor like almost immediately because the scriptwriters have been working for a while. Projects are of different scale, projects are of different sizes. The larger project may take maybe two.

Anand Patel: But mostly episodic will go on for immediately, I think?

Abhishek More: Plus you must understand that, there are several projects which are at different stages. They could have been a project which is just toward finishing filming when the strike happened. There is a project which is midway through filming, there is a project which hasn't even started filming, not a, several, hundreds of projects. We foresee that we will start maybe November is the only month where if there could be an impact there will be, but from December onwards we'll start getting work on.

Anand Patel: As you said we have no order book for this January onwards, so I just want to.

- Abhishek More:** Historically like because let's not because of the strike we don't have order book. In general, our business since this is outsource based, we don't have order book of project, we have clients who have been giving us regular work. It is not because of the strike that we don't have an order.
- Moderator:** Thank you. The next question is from the line of Aditya Surana, an Individual Investor. Please go ahead.
- Aditya Surana:** Sir, what are the trends of big VFX companies subletting work in India, is it increasing?
- Abhishek More:** Absolutely. The trend of VFX, coming to India is definitely increasing. I can't quantify, I don't have a percentage of US to India, how much per year the growth has been I don't have that number. And that's why I'm not in a situation to give you an answer for that. In general, we see that, more and more studios are coming up, which is great. Majority of them have a lot of work, which is even better. The kind of data that we have from the projects that are in the pipeline, which are going to be filming, there is substantial amount of work in this industry, because we have vision on the projects that are going in production, which are going to go into production from the majors over the next two years, three years. So, if you look at it over the next three years there are if you just look at series that are going to be over 2000 series produced, seasons produced over the next two years. There's lot of work, now up to a person, how much of that they can get.
- Aditya Surana:** Okay. And sir one more question, what are the differences in the margin, if we take the direct project or if we take the outsourced project?
- Abhishek More:** Typically in outsourced projects we have seen that net margins are in the range of 10% to 12%. if you're lucky on a project, maybe 15% but it's rare that in outsource the margins are more than 15%. And now that we also have long standing associations with so many of our clients, they know the work that we do, they know the team that we employ, obviously there is are cost to that. Secondly, in this also there are different things by the way. So, today, if I'm doing an outsourcer, so let's say Technicolor, which is a Disney approved VFX vendor in the US. If they get a Disney project, and they have to outsource bits and pieces of that, in that I'll get much better margin because every studio in India cannot do that, because even that VFX studio has to be Disney approved to be a vendor of Technicolor for that. So, since their basket of offering of studios in India is much lesser, I get better margins in that. So, it's not fixed. It really depend client-to-client, project-to-project so there's no fixed that you will get that much margin only.
- Moderator:** Thank you. The next question is from the line of Jitesh Parmar, an Individual Investor. Please go ahead.
- Jitesh Parmar:** I just have few questions. Sir, the exchange do not mandate us to have a quarterly result disclosure, it's half yearly but there are trends that a lot of the SMEs do that. So, do you have any plan to kind of do quarterly disclosure?

- Abhishek More:** As of now we are moving towards the quarterly disclosures, we are doing our best so that we can do quarterly disclosures, we do understand it's not a mandate, but in investor interest we have been discussing internally and we will mostly be doing quarterly.
- Jitesh Parmar:** That that would be great sir, thank you. And, in terms of our business, I just wanted to understand it bit better. Do we have any split or seasonality like H1, H2 split or like quarterly, I understand we are in the growth trajectory, but just wanted to understand what you have experienced in the past, do we see any sort of seasonality or split between H1, H2, or on quarterly basis?
- Abhishek More:** Not really, historically the only time that we see the work slows down is, 15 December, to 15 January, otherwise it's very rare because most of US and Europe is on their Christmas break at that time. So, that's really the only time but this year, we don't foresee that because a lot of people have spoken to and they all want to work in that period, because they have a lot of cover up to do. Projects have a lot of cover up to do on the project site, a lot of people who have not been paid for months, they want to earn some money. So, we don't estimate that break to be there this year.
- Jitesh Parmar:** Okay, sir. And like you mentioned, this is more like a relationship based business rather than order book. Okay, so just wanted to understand what would be the size of our business development team. And what we aspire to see that in next two, three years who is actively kind of looking for these contracts?
- Abhishek More:** So, see in this industry while you have a couple of people maybe who are dedicated to business development, technically anybody senior is business development indirectly. So, my VFX supervisor whose job is as VFX supervisor, but he's also indirectly doing business development only because, if he has been supervising VFX, as a VFX supervisor for several projects, and there is a producer, VFX producer or director who's worked with him in the past. And when he has VFX, supervisor projects, there is a good chance that he will call him that, I'm doing this project, I would want you as VFX supervisor, if you come as VFX supervisor Digikore comes as company automatically on the project. So, in the senior level positions, whether it's VFX supervisor, whether it's VFX producer, whether it's studio head, whether it is the creative head, COO, they all are technically business development.
- Jitesh Parmar:** Sir, so if that is the case, if this is then, just wanted to understand it bit better if it is a bit ad hoc, then what sort of risk we see in terms of the business and deserve kind of on a continuous basis, more established kind of?
- Abhishek More:** It's not ad hoc, like I said that there is a business development team that does their job, and they their job is that thing, these are all add ons, while the business development team does its job, these are all other sources of business development.
- Jitesh Parmar:** Okay. And what would be the size of that business development team, that is a dedicated one?

Abhishek More: Typically, most studios would have one senior executive producer, who's the main person who bringing in the job and would be supported by a couple of juniors and that's the same structure that we plan to have.

Jitesh Parmar: Okay, and if it's a small sized team, do we see a key personnel risk in that case?

Abhishek More: Any business obviously faces key personal risk, but it's our job as a company to ensure that, the team is happy, they're motivated, and they are well incentivized for the work that they do. Even in India today, we have certain key talent who have been with the company for eight years, 10 years. Any company faces, key talent risk, but we have to just try to have a backup plan, cover it up, so that tomorrow if a person leaves there's nothing that you can do when a person wants to leave the company and do something else. We need to have a backup, and even it's a general business practice. Even in India today, we have so many people, will come, people go. So, we are used to creating backups for exits.

Jitesh Parmar: Okay, sir my last question, if I may. So, do we see any sort of payment defaults, on these contracts, and if yes, if you can put some color on that?

Abhishek More: So, far, we haven't really experienced payment defaults. Among my 14 odd years in visual effects, I have experienced the payment default only ones that also because that company went bankrupt during COVID. And that was a client of ours for almost six, seven years. The trust factor was always there, but when a person goes bankrupt, it's a very difficult situation. Apart from that, touchwood Hollywood or international clients, we've never experienced a payment default so far.

Moderator: Thank you. Ladies and gentlemen, this will be the last question which is from the line of Pranay Jain from Deal Wealth Capital. Please go ahead.

Pranay Jain: Thank you, just two short questions. One, our trade receivables as of first half this year are around 15 crores versus six crores in full last year. So, just wanted to understand from the time we bill for the services, in how much time do we collect the revenue what is the average collection period?

Abhishek More: Average we are experiencing today is around 80 days after billing for collections.

Pranay Jain: Okay, all right. And the second bit is, as you have indicated, with the quality of work increasing and more direct, large value projects coming in progressively. What is our average ticket size of the projects, want to understand 12 months back, what was it and how has it evolved this year and how do you see it progressing over the next 12, 18 months if you could give us that picture?

Abhishek More: Yes, absolutely. So, every year, year-on-year our average ticket size of the projects are increasing no doubt about that. As on today, if you look at an average of last year for the direct work versus today of let say when I say today is 23, 24 of direct work, I would say our average

ticket size has increased by almost 50%. Once we have the team in North America our average ticket size will actually increase by 3x to 5x in terms of ticket size per project.

Pranay Jain: So, currently, what is the average ticket size?

Abhishek More: It's in the range of for direct projects you could say the very average ballpark is around \$200,000.

Pranay Jain: And this is usually executable over four to six months?

Abhishek More: Yes, that's correct.

Moderator: Thank you. Ladies and gentlemen, as that was the last question. I would now like to invite Mr. Gopal Chandak to give his closing remarks. Over to you, Mr. Chandak.

Gopal Chandak: Thanks. Thanks, everyone for joining the conference call of Digikore Studios Limited. If you have any queries, you can write us at info@kirinadvisors.com. Once more thank you for joining the call.

Abhishek More: Thank you. Thank you, everyone it was a pleasure speaking with all of you, and really appreciate the time you've taken to join the call.

Moderator: Thank you, members of the management. Ladies and gentlemen on behalf of Kirin Advisors, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.