



“Shemaroo Entertainment Limited Q4 FY17 Earnings Conference Call”

May 10, 2017



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Moderator: Good day ladies and gentlemen and a very warm welcome to the Shemaroo Entertainment Limited Q4 FY2017 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Dokania from IDFC Securities. Thank you and over to you Sir!

Rohit Dokania: Thank you Ali. Good afternoon everyone and welcome to the Q4 FY2017 results conference call of Shemaroo Entertainment Limited. I would like to thank the management for giving IDFC Securities an opportunity to host this call. The management team today will be represented by Mr. Hiren Gada - Whole Time Director and Chief Financial Officer and Mr. Jai Maroo – Director and Head of New Media Business. We will start the call with the short commentary from the management and then move into the Q&A. Thank you everyone for joining and over to you Sir!

Hiren Gada: Good afternoon everyone and thank you for spending time and joining the Shemaroo Entertainment Q4 FY2017 earnings call. We have had a fairly I would say a period of mixed quarter primarily on account of the traditional media business, so the overall income for this quarter Q4 for the entire company has decreased by 3.5% to Rs.99.31 Crores. The resultant EBITDA also has decreased by 4.6% to Rs.32.36 Crores and the net profit after tax has gone down by 16.3% to Rs.13.78 Crores for Q4 FY2017. As far as the full year picture is concerned, the total topline has grown by about 13.8% to Rs.428 Crores, EBITDA has increased by 19.5% to Rs.130 Crores and the net profit after tax has gone up by 17.9% to Rs.61.48 Crores. In terms of the income breakup that we have been sharing, so the new media versus traditional media, the traditional media is the one, which has continued to see the slowdown from the post demonetisation ad slowdown on the broadcaster front and this is an industry like phenomenon. I would think it is more like one off, but that slowdown, which started from November of last year kind of continued into this quarter, although I would say that towards the end of the quarter things looked up, but we had lost a fair amount of the quarter on this. If I look at the way this current year has started I think we should be fairly coming back in this quarter at least to a neutral area and followed by at an industry level I think growth should be back on track. As far as the full year is concerned, we expect that the industry should be back on track in terms of growth, although there are varying views, so we looked at, we checked with many industry bodies that tracks the industry, our experts, etc., so various people have put out differing reports on what the outlook for FY2018 is as far as the industry is concerned right from 8% growth to about 12% growth so that seems to be the range. We will be looking to do better than that in this current financial year.

As far as the new media business is concerned happy to report a 40% topline growth to Rs.24.76 Crores versus Rs.17.66 Crores and for the full year it closed at 45.4% growth, which is Rs.92.35 Crores versus Rs.63.51 Crores in terms of the new media topline. Interestingly, the overall



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contribution of new media has now crossed 20% for the first time in the total share of income of the company and as we have discussed in the past the full impact of cheaper data pack in terms of video consumption has really been seen on the views trajectory of the YouTube, which has continued to grow sharply and in fact even in this quarter we have seen a fair amount of growth over there. So now as far as March 2017 is concerned we are actually now doing on an average about 1 Crore views a day, although I would like to put a small caveat over there that still the monetisation visibility has not caught up in this partly due to demonetisation, but more importantly we feel is because the spends on digital media, which have grown much, much slower than the viewership has actually grown, so that has resulted in a fall in the ad rates on digital media.

In addition to this, few other operational highlights that I would like to just add is, so in terms of new media we have renewed licensing deal to Reliance JIO and some further contents that we have licensed to them in addition to that. On YouTube one of our key channels will be Filmi Gaane has crossed more than 2 million subscribers during this quarter. In fact subsequently it has actually crossed 3 million recently. We have crossed 5 lakhs subscribers on our movie channel on YouTube, which is Shemaroo Movies. On the DTH value added services front we have launched Punjabi and Gujarati services on Videocon d2h platform in January and the monetisation has started post April for that.

Other interesting indicator of the way we have been progressing on the digital media and what kind of capability we built so, very proud to share that our campaign of FilmigaaneAntakshri where we had registered in the Limca book of record has actually won the very prestigious Gold Abby at Goa Fest in the category of social media marketing campaign, so that I would say a further feather in the cap for our various activities that we have been doing. So with this overview, I would like to open the conversation for any questions that may be there. Thank you.

Moderator: Thank you very much. We will take the first question from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Thanks for the opportunity. Sir regarding the decline in the traditional media so could you share some colour what exactly happened is it because of the content deals with the broadcaster getting delayed or any other factor?

Hiren Gada: Yes I mean basically what has happened is that due to demonetisation the overall ad spend has come down in particularly the TV media has bore the brunt of it. In fact, recently Madison came out with a report in fact even GroupM came out with different estimates on how much that loss has been and the loss estimated for television industry just in November to December period has been more than Rs.850 Crores at an industry level. So obviously the key broadcasters who are ultimately our customers, their cash loans as well as revenues have been on the ad front so subscription revenue probably continue to grow and we do not know much about what has happened on that, but ad being a very important part of the revenue overall, in fact many



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broadcasters have been on record saying that their ad-fill rates have come down to probably may be near 50% or 60% kind of a thing. So in order to conserve resources as well as maintain their own respective cash flow, profitability and whatever other parameters that may be there. Many of them have kind of settled down their movie acquisition budget or even some other discretionary spends that they may be having, their own respective marketing activities or whatever else they may be able to reduce cost at least have control to come down on, so to that extent there was a deferment of certain deal closures or delay in deal closures plus overall pullback on the budgets for acquisition.

Yogesh Kirve: So if I look at decline of 18% could you help us breakout in terms of the number of films and the realization for films any broad indication?

Hiren Gada: So the way we have looked at it if I have to put it in a different way that it is basically the volume that has come up, realizations are kind of early maintained.

Yogesh Kirve: Right so this the lower amount of deal, does that also explain why the inventory has moved up about 50 odd Crores during the quarter?

Hiren Gada: Partly yes.

Yogesh Kirve: Apart from that was there any sort of an increase acquisition rate or any tactical purchases that happened, which explains the inventory role?

Hiren Gada: Yes so in fact one of the thing we try to do was actually based on what mixed up content was being worked on in terms of the content sales, etc., so there was a little bit of tactical purchasing that has happened.

Yogesh Kirve: Right. Sir lastly on the receivables the amount of data has almost gone by 80%-90% Y-o-Y obviously understand last year the base was low, but in terms of data it has moved to about 160, so any specific factor that you would like to follow?

Hiren Gada: In fact if you remember we had this discussion during the September call also that actually from September the receivables in September was Rs.187 Crores, in March is Rs.191 Crores, so it is the number of days is more or less maintained at what we were at September.

Moderator: Thank you. We have the next question from Hiral Desai from Anived Portfolio Management. Please go ahead.

Hiral Desai: So actually I wanted to understand the EBITDA margin for the quarter, obviously despite the miss that we have add on the traditional media revenues, the EBITDA margin continues to remain extremely resilient and obviously also had higher other expenditure during the quarter so what explains the strength in the EBITDA margin despite the miss on the revenue?



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- Hiren Gada:** It was more on account of the new media business.
- Hiral Desai:** Adjusted for the other expense also the EBITDA margin would have been more like 34%, which means that the margin on the traditional media also would have been decent during the quarter?
- Hiren Gada:** There is some marginal drop in the margin, but overall if you ask me at a gross margin level the margins are maintained because as I said the realizations have been maintained.
- Hiral Desai:** Anything specific in the other expenditure line item, sequentially up actually 45%?
- Hiren Gada:** So basically one is the people cost.
- Hiral Desai:** No this is X of the...
- Hiren Gada:** But if on the other expenses, so basically this is combination of one is G&A, so due to additional recruitment we have just expanded one additional office space that we have added, so partly it would be that and then from other expenses on account of things like consultants and particularly now in the new media side there is a lot of things that initiatives are being planned, there is a lot of development work that is happening, we are not capitalizing any on that we are just putting it in revenue expense and taking it off.
- Hiral Desai:** Typically based on your experience, given that H2 last was extremely challenging on the traditional media part, do you see some kind of a pent-up in the subsequent year or not really?
- Hiren Gada:** If you ask me yes and no, there will be some amount of pent-up that would be available and to that extent certain conversations are happening with the broadcasters, etc., but one thing to understand is that this ultimately is a perishable inventory, perishable commodity, so demand lost, how much of it will actually be made up by, so to that extent pent-up advertising demand itself maybe limited, what is deferred may not necessarily fully come back, so I think that would kind of get reflected over here.
- Hiral Desai:** Lastly on the subsidiaries revenue if I just subtract the console minus standalone this year for the entire year the revenues are about Rs.7 Crores, so wanted to understand over three to four year kind of a period what is the revenue opportunity within the subsidiary space?
- Hiren Gada:** Difficult to give a forward looking statement, but the subsidiaries are, one of them is still in an investment mode, but particularly one or two of them have done reasonably well towards the end of the year, so hopefully in the next two, three years we should see anywhere – I am not trying to give a forward looking statement, but the internal target would be a multiple of where we are today.
- Hiral Desai:** Perfect. Thanks a ton. I will come back in the queue.



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- Moderator:** Thank you. We will take the next question from the line of Aditya Iyer from Dimensional Securities. Please go ahead.
- Aditya Iyer:** Good afternoon Sir! Thank you for the opportunity. The first question would be if you just breakup the receivable days in between traditional media just a rough number as in how many days does traditional media pay even pay even and how many days does digital media pay even because we thought there should be marked difference between both of them?
- Hiren Gada:** On an average traditional media is between 180 to 200 days and new media is about 90 days.
- Aditya Iyer:** So this year we understand there could be an aberration, but as going ahead I guess even you expect new media to start growing much larger the share of your overall revenues where could you see the receivable days, how much do you think it could come down by say over a period of three to four years?
- Hiren Gada:** The thought process is that as the digital media grows maybe 35%, 40% or thereabout, the overall receivable number of days probably should be middling from between 90 and 180 days, so maybe somewhere around 130, 140 is what we should be targeting.
- Aditya Iyer:** Just one more question. In terms of your new content purchases, what would be the guidance on that front like say over the next two or three years if you could just give out a guidance that we have been purchasing content worth an XX amount or rough what is the budget that you would have in mind?
- Hiren Gada:** Just to recap some of the previous discussions to give you the context. Basically what we have been targeting, we have been in an investment mode as has been discussed earlier. The target was originally to be through with this investment phase by middle of 2018 calendar year, but about two quarters back, in fact actually pre-demonetisation we felt that this can be preponed based on the progress that we had achieved both due to new media growth as well as certain content library that we had managed to acquire that we should be able to prepone this to probably end of current calendar year, which is the December quarter of this current year. As of now although demonetisation has thrown us back a little bit, but we are still fairly confident that we should be able to maintain that because there is a fair amount of attraction that we are seeing on new media front as well as now. Based on current planning I think we should be in that position, so if that plays out the whole idea is that the fresh acquisition whatever we would do will ultimately get funded out of 8% of internal accruals and we would not need to look for borrowing rather we should be on a repayment kind of a mode.
- Aditya Iyer:** Is there a number that you have in mind and how much would you be spending on new acquisitions after say from FY2019 onwards? Would it be on par with the current Rs.350 Crores kind of run rate or would it be substantially lower?



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- Hiren Gada:** It will not be substantially lower, but it would be lower.
- Aditya Iyer:** Fair enough Sir! That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Dhiraj Dave from Samvad Financial. Please go ahead.
- Dhiraj Dave:** One question I had is basically there is on YouTube from Mirza Juliet picture new movie trailer, which has been funded by Shemaroo Entertainment, so can you give us some colour on what exactly is kind of because what we understand is the balance sheet management did say that you have at any point of time less than 5% exposure to film production, so can you just explain what is expected from this new movie and your plan in future from that area?
- Hiren Gada:** Two things I will just correct the understanding that we have said in the past, it is not 5% it is 10%. Having said that Mirza Juliet was actually a distribution deal for us, so we have zero risk and zero capital invested in that movie, so we only did a distribution for the movie, which is even the P&A was actually funded by the producer account, so in that sense we have no risk or capital at stake on that movie rather what it does give us is because the movie was fairly critically acclaimed, so we have accessed to that content for all our different media distribution that it is available to us now.
- Dhiraj Dave:** Basically how many movie production, do we have any movie production as of now?
- Hiren Gada:** As of now we have nothing on the floor, in fact there is nothing in the immediate pipeline also, so the last movie we released was if I take Mirza Juliet out because it is a distribution deal the last movie where we had funded and released was Hunterrr, which was in March 2015.
- Dhiraj Dave:** Secondly if you see there are lot of developments happening in the new media front with entry of Amazon, Reliance Jio and all kind of players, which kind of trying to get sourcing movie directly from the production house, now if that is the kind of it the excess of content owner also becoming with ease of kind of development of internet, etc., in new mediums coming up the gap between the consumers and the content provider is increasingly becoming kind of reducing in that context how do you see our company's strategy to see content coming in future, particularly since now significant portion of revenue comes from new media. So basically like Amazon also trying to directly source from the producer of movies and kind of trying to do that, if that is the kind of thing then how do we see Shemaroo role in that context?
- Hiren Gada:** Basically two or three points I would say one is that a lot of what Amazon is doing or some of the other players are doing is focused on the first cycle of the business, it is basically for the new film that they are going. Now we are in fact not in that segment at all, so as far as catalogue is concerned in fact we are seeing that a lot of the deals are happening in the ecosystem are primarily one in nonexclusive basis and therefore an advantage to an aggregator because it is



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very difficult for an individual producer to reach out to its platform and for the platform to pay enough attention to the individual producer also and secondly the kind of library access that we have we are fairly deeply engaged with most of these platforms in terms of fulfilling their library requirement. In fact for many of them just to do reissue content to do one of deals and small deals or say 3, 5, 10 films is very uneconomical and unviable for most of the platform rather when we come with 100 film, 200 film kind of deals that it in fact puts us in a slightly more advantage position.

- Dhiraj Dave:** I will join in the queue in case I have a question. All the best.
- Moderator:** Thank you. We will take the next question from the line of Chintan Shah from Kitara Capital. Please go ahead.
- Nimesh Desai:** On new additions can you share that in terms of for the full year how much in terms of value or volume we have acquired new content and what is the net addition kind of a position now for us?
- Hiren Gada:** Net addition so if I look at from the balance sheet right now I just quickly tell you is basically roughly about Rs.85 Crores.
- Nimesh Desai:** In terms of number of movies or something can you share?
- Hiren Gada:** We normally give it in the annual report.
- Nimesh Desai:** Secondly on your earlier reply you mentioned that you will now in going forward new acquisition will also be done from the internal accruals, so how are we looking at our debt positions from here on?
- Hiren Gada:** Ultimately the whole idea is that once we are finished with the investment phase the free cash flow obviously should a) fund the growth requirement or the internal accrual should fund the growth requirements and there should be cash flow available to repay of the debt, so that would be the key focus over the next two to three years if you ask me.
- Nimesh Desai:** Should I assume that this level of debt, which is at peak?
- Hiren Gada:** More or less yes, I would still take maybe a quarter or so more to kind of establish the peak, but maybe June, July 2017 would kind of probably be the peak.
- Nimesh Desai:** On new media side have we seen demonetisation impact on our Telco segment?
- Hiren Gada:** Yes Jai will talk about that.
- Jai Maroo:** The impact of demonetisation in the short term there was a certain amount I think more because of overall the consumer had mismatches and confusion and therefore would tend to withhold



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certain discretionary spends. We have seen that, that started to come back in the fourth quarter; however, overall given the way we have seen aggressive pricing on data packs as well as bundling of data packs and unlimited voice, etc., overall ARPU in general currently what we see ARPU or prepaid balance is being maintained by the consumer has gone down a bit and therefore there is some recalibration that is required even in terms of how we go through our, push through our product and our purchasing.

Nimesh Desai: That means is that data is become cheaper, so your one rupee kind of a sale, which used to happen on Telco will go down?

Jai Maroo: The higher price points, actually the products, which we had on higher price points are somewhat affected because the average balance is now being maintained in the mobile operator wallet have gone down, which requires a little bit of recalibration. Having said that consumption actually goes up because with data being cheaper there is actually it is much easier to consume rich media content and so consumption tends to go up, so it will not be a huge impact and we actually seen that in this quarter, it counterbalances to an extent, we have started to see it come in that direction already.

Nimesh Desai: My last question in new media Jai if you can give me some highlight on how is your ciniplex business has shown growth?

Jai Maroo: You mean Miniplex?

Nimesh Desai: Miniplex business.

Jai Maroo: So miniplex is now on three platforms, which is Tata Sky, Airtel and Dish TV and additionally in this quarter we have rolled it out on the cable platform also on Hathway. Cable being a relatively much more challenging and difficult industry because it is far more on ground industry, it is very early days and we kind of paid only a few weeks back, but on the other three platforms I think we have had reasonable traction, it is kind of I would say at this time not, in fact it is ahead of what we had budgeted originally, but now I would say it is not really a gaga kind of number, but it is definitely decent.

Nimesh Desai: Thank you Sir!

Moderator: Thank you. We will take the next question from the line of Jigar Shah from May Bank. Please go ahead.

Jigar Shah: Thank you for the opportunity. Hiren congratulation on the continued growth in the new media business. I have a couple of points to make; one is given that the growth in the new media business much better than the traditional media and the content acquisition that is required. We have also seen that from whatever media reports that the value of the existing movies has also



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gone up, in this entire situation have you looked at the value of the existing library that you have and is there any colour that you want to give on the overall cost of acquisition in the industry compared to what it would have been one or two years ago?

Hiren Gada: We have not looked at to try and figure out what is the value of the library per se because that would be purely an academic exercise and we are not looking to really do anything with that, but more pertinent is what is happening to cost of acquisition, so definitely with the monetisation going up the cost of acquisition also has been on an uptrend, so to that extent this early mover advantage that we have created in terms of building up the library and investing prior to actually these various triggers having played out is kind of working well for us and at the same time plus acquisitions the values definitely are on the higher side, but again there are our whole working happens on the IRR point of view, so there is no doubt that if monetisation goes up the cost is also going to follow this suite. As long as we are able to buy within the IRR that we have targeted we are happy with that.

Jigar Shah: Can you provide any ballpark number on that IRR that you narrow down?

Hiren Gada: 18%.

Jigar Shah: The second point quickly what I want to ask is once again this is something that we hear and you are the best person to give an idea. Overall in the industry given whatever Amazon is doing or Netflix or other people are trying to do, is there any kind of threat or scare that the traditional content aggregators would find it difficult to get the content, given that these people can have a capital excess that practically no cost and therefore they are trying to spoil the market, is that kind of fear a true fear or it is more like just, if not correct?

Hiren Gada: On the new film front definitely the prices and values have gone beyond what we think currently are viable prices, but this is more for the first cycle new film kind of scenario and we do not know whether there will be any correction or this aggressive spree is going to continue. On the library catalogue or on the reissue films we have not seen really that kind of a type also or that kind of an unviability in terms of the prices being offered, so rather on the reissue films there are many other challenges of dealing with too many fragmented producers, legal, technical, there are too many challenges on that front because of which in fact we feel that someone like us should be in a good position to kind of cater to that segment basically.

Jigar Shah: Last and very small point is that, what kind of capex you will incur for the next two, three years on a per annum basis?

Hiren Gada: I just explained to the previous question also is that net off of, in fact in this year itself we do not expect to have a net addition to the inventory in terms of capex, so there will be gross capex happening, which we would be buying, but we would be selling more than buying, let me put it that way, which basically should mean that the capital needed to fund that acquisition would kind



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of come out from internal accruals basically and that would be the target for the next two to three years to actually kind of in a different way we should soon enter, if I have to use a figurative where we should use a harvesting, we should enter a harvesting kind of situation post December 2017.

Jigar Shah: Fine. Thank you so much and all the best.

Moderator: Thank you. We have the next question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Sir I have two questions, one is the total debt, which we have for the year, correct me if I am wrong, it is around Rs.292 Crores FY2017 right?

Hiren Gada: Yes.

Pragya Vishwakarma: So if you see that is increase by almost Rs.55 Crores from the previous year?

Hiren Gada: Yes. From previous year it is more than that actually, it is about upward of Rs.75 Crores roughly.

Pragya Vishwakarma: Inventory addition if we see, last year we were at 385 and this year we are at 500, so it is around Rs.91 Crores, so I was just trying to correlate it with a increase in our debt, so is that a right way to look at it?

Hiren Gada: That is the one of the ways we look at it, so to that extent there is an inherent internal funding that would have happened from there, but that is one way to look at it that the inventory addition was funded by debt.

Pragya Vishwakarma: Because inventory addition is higher than the debt increase for the same period?

Hiren Gada: Yes.

Pragya Vishwakarma: I know that you have answered it two, three times during the concall, but I wanted to understand can you give me some ballpark figure, what will be our inventory addition from FY2018 onwards like this year it was to the tune of Rs.115 Crores compared to FY2016, so for next three to four years what can be this number?

Hiren Gada: Target to reiterate that internally at least we are working on is actually a reduction in the inventory over the next two to three years and as I just mentioned that we should be now in a way getting into the harvesting time for, so there has been a buildup we have been adding to the library we have been investing in the content, now that we have a certain paramount of content in place, certain library in place and hopefully by the end of this calendar year we should in a way reach our target of in terms of the library mix that we would look at strategically. Once that point is reached I think the whole target is to we kind of have a, I would not call it a pause, but a steady



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state acquisition, but sales, etc., if it continues to grow at the way we are looking at it in terms of the industry number then we would look at basically reduction in the inventory kind of scenario, so right now we have not looked at three year kind of a thing, but if in two years we can come up from the inventory maybe Rs.100 odd Crores or even more, I think we should be in a fairly good position because then we have sweated out the assets far more than compared to the buildup phase.

Moderator: Thank you. We have the next question from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera: Good afternoon Sir! What would be your blended cost of debt?

Hiren Gada: Blended cost of debt would be roughly about around 11%, 11.5%.

Sachit Khera: So I would imagine there would not be too much scope to reduce it from here?

Hiren Gada: Maybe 25 to 50 basis points, but it will depend on what the overall interest rate scenario happens. I think last three to four months there have been a lot of changes in the yields.

Sachit Khera: Next question would be regarding your contract that you signed with YouTube and other platforms, are these are long-term contracts or are these short-term contracts because my only worry is that as soon as we have become dependent on a particular platform too much for example let us say in your case YouTube would be a big platform then it gives, in those platforms a lot of bargaining power and they can perhaps reduce the commission rates that you get or the ad rates, so how do you protect yourself against that risk?

Jai Maroo: So there are sort of two categories we have a few partners such as YouTube or say Apple iTunes, etc., where it is a ongoing contract; however, there is a lot of control in our hand in terms of putting on or removing content, these are typically much more comparatively self managed platforms and then we have a lot of customers such as say Hotstar or a Jio, which are based on a period, so we have licensed to them for a particular period typically we aim for 18 to 36 months as our period, but it varies deal to deal and then there is additional – is there a renewal or something else that happens at that point in time. In terms of dependency I think we have a large number of customers. As we have been talking and if you look back to some of our previous calls or announcements and there is a fairly large number of the players in the ecosystem across the various platforms who are customers of ours, who we are doing some level of content licensing to a monetisation with.

Sachit Khera: You do not feel this is a risk per se?

Jai Maroo: Not at this point, not that big, and particularly global partners such as Apple and Google actually tend to be very globally tend to have a fixed revenue share where in fact it works in our favour



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because we typically are enjoying similar revenue shares to even what Hollywood studio or larger labels would be enjoying because typically global partners such as these try and follow a similar sharing format across countries.

Sachit Khara: Thank you.

Moderator: Thank you. We will take the next question from the line of Lala Ram from Vibrant Securities. Please go ahead.

Lala Ram: My question is on the receivable side. If I see a long-term trend of your company from 2014 to 2016, there was a sharp drop in receivables from Rs.141 Crores to Rs.107 Crores, but something happened in this year where they have again jumped, so could you just throw some light on what exactly happened because the traditional media has consistently the shares gone down, so would expect the receivables to improve, but it has actually deteriorated, so can you throw some light on that?

Hiren Gada: Actually, last year, which is FY2016 was an aberration and at that time we had actually mentioned it in the call at that time that this receivable days, which have come down is really not a permanent win kind of a thing. The traditional media average is between 180 to 200 days and new media is around 90 days. So last year probably around March we would have received some extraordinary one-off kind of payment and that was the reason why we had kind of mentioned this in the March 2016 earnings call.

Lala Ram: Even in FY2015 also we had reduced receivable?

Hiren Gada: Had reduced, but like I said that it was not really a permanent thing in fact to that extent if you see the September, so half year of the current FY2017 also, September 2016 half year also, the receivables were kind of back to about 160 odd days. So from there actually it is kind of being maintained more or less at a similar level.

Lala Ram: So 2015 and 2016 would be an aberration you are saying?

Hiren Gada: Yes.

Lala Ram: Will that sounds strange right two years continuously aberration?

Hiren Gada: No, it depends on. The business is a little deal base, so to an extent it depends on certain cash flow that would have been negotiated with the broadcasters to pay in March or that kind of a thing.

Lala Ram: Got it. Secondly, in the new media side, can you throw some light on what is driving the growth for example say by MVAS or YouTube, can you throw some more light because as of now it is



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more like it is short in the dark right, how we are growing in which segments we are growing, so if you can throw some light on that?

Hiren Gada:

As of now in fact happily for us I would say that both the segments of MVAS and the non-MVAS, which is combination of YouTube and other platforms. They all have in a way been growing more or less at a similar pace. So there could be some quarterly changes, but if we see a full year they are more or less kind of growing at a similar clip. So just to recap more or less 50 odd percent of the business between comes from the MVAS or the Telco Ecosystem for us, actually MVAS is not the right word to use, but Telco Ecosystem. Roughly from the remaining a major part comes from YouTube around 60 odd percent and the rest is from the other platforms such as Hotstar or Jio or all other various platforms put together. So that is really the rough breakup and like I said on a quarter-to-quarter basis there is some variation in all of this, but we have more or less seen that this is each of the segments have kind of continue to grow at a similar clip.

Moderator:

Thank you. We have the next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai:

Thanks for the opportunity. I just wanted to understand if I take a look at our evolution of the new media, some of the building blocks or the tailwinds that we are considering where the cheaper data, faster data, more penetration and I think almost all of that has kind of panned out as we are expecting and accordingly our view they have also gone up and I think we were expecting this kind of a jumping view at some point of time and I think now we are kind of observing that it is very difficult to see how this view will get monetize, so have you try to talk to the various participants in the ecosystem, what is their view on when they see that steady state and they will start putting in money and now we will be able to monetize that. If you can throw some colour on that that would be very helpful?

Hiren Gada:

Two or three things. One is basically, fundamentally if you see what will drive revenue ultimately is more spends right, so the advertisers of the brand that the marketers basically they would need to change the media mix, so today for example if they are allocating 10% to digital and which may have been on a year-on-year basis, last year may have been a 30% growth, but what has happened is that the views have gone up multifold versus just 30% growth in the allocation to this media. So ultimately at some point, this market, the brand manager or whoever is doing the media planning will ultimately look at changing the media mix. Now in order to change that media mix two or three things are needed, one is obviously sustainability of the current trajectory in terms of views, etc., which at least if you see six month data, yes it is sustained and grown, although we have put a caution even in this quarter release that we cannot comment on the sustainability because the bulk of this quarter also was on the free plan of Jio. Once the full paid plan happens and all that is in place then only we will know where it stabilizes, so I think that is one thing that the marketers or advertisers will definitely look for. Other is more equally important is that where this viewership is coming out of, so obviously some other media,



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so consumer is taking time away from some other media and spending it on this media. So because where to reallocate that spend, what kind of a new media mix should the person come up with, so for that some more additional market data is needed like we have the TV ratings, many other such data is needed for that to really, actually for them to do the number crunching and come up with the revised media mix. So there is definitely a lag in that happening. In addition to that, of course there was a demonetisation impact, which also was felt on YouTube, but the shares growth in numbers I think the biggest question that everyone is having is that when that will translate into growth in CPMs, the ad rates or fill rates kind of a thing and which ultimately will be driven from the growth in spend.

Dhwanil Desai: In your opinion you think that is like a year or year-and-a-half away where we everybody realizes that now this is something, which is sustainable or steady state conditions, do you have any timeframe around that or?

Hiren Gada: If I have to take a shorter data, although it is very difficult for me to really give a better thing, but based on various conversations I have been having in the ecosystem, the partners with YouTube, with other content partners and with some media planning or media buying agencies, etc. One thing that is looking like is that growth will not be matched like to like very soon. Over a two-to-three quarters, there will be a fair upward movement in terms of the spend.

Dhwanil Desai: Thanks.

Moderator: Thank you. We will take the next question from the line of Neeta Khilnani from B&K Securities. Please go ahead.

Neeta Khilnani: Thank you for the opportunity. Two good questions on the new media side. One is are we also looking at exclusive digital deal and if yes what proportion out of the total Rs.300 Crores to Rs.350 Crores that we spend on content would be on digital and second in the existing library that we have when it comes to renewal would you be also looking to get the digital rights, if it is not already there and if yes, then what incremental cost would that entail?

Hiren Gada: I will answer second question first. By and large, bulk of the library currently that we have it does include digital rights and in fact in most of the deals that we do the whole idea is to definitely have digital rights included in that, so that is definitely an important part, now what is the value of the digital, when the digital revenue was small it was obviously small percentage of the value, now it is a larger percentage of the value, I will put it that way.

Neeta Khilnani: You would not be able to give us some ballpark?

Hiren Gada: It is very difficult because each dealer is different and each film itself has a different appeal on digital media. So it is very difficult to do that. I did not fully understand your first question, was it more in terms of acquisition actually if you can just?



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- Neeta Khilnani:** What I was trying to ask is are you also doing exclusive digital deals or all of this would be bundle deals?
- Hiren Gada:** For digital only you mean to say yes we have been acquiring digital rights only for two films.
- Neeta Khilnani:** It would probably be a small percentage?
- Hiren Gada:** Yes, at this point it would be relatively much smaller, because till now the bundle deal has made sense and that has been our focus, also the values of digital have been so small overall till now that it has been very tough to break it out of the overall bundle deals, so the bundle deal has been really the main stake.
- Neeta Khilnani:** Going forward do you think this would change given the growth that we see in digital?
- Hiren Gada:** So for new films obviously it has already changed. As far as library or catalogue films is concerned or reissue film is concerned, I would say it is to an extent changing, but more for the larger or higher value or bigger films till the smaller or lower value films still is not happened.
- Neeta Khilnani:** Alright. Thank you Sir!
- Moderator:** Thank you. We have the next question from the line of Kushal Sheth from Kushal Capital. Please go ahead.
- Kushal Sheth:** Thank you for the opportunity. I had a couple of questions with regards to the new media. First thing I wanted to know is having such a large subscriber base on YouTube does it give us any sort of leg up in terms of a better revenue share, a better deal with YouTube and is there any scope of improving to the growing subscriber base? That is my first question.
- Hiren Gada:** Having a larger subscriber base actually does not currently give any change in terms of commercials in fact as I was saying in response to an earlier question typically the platform such as Apple iTunes or YouTube tend to follow actually saying that it is a standard revenue share pretty much globally irrespective and create the opportunities based on the level of engagement that the content is able to do, but it is a level playing field from an entry point of view. Having said that there are several softer advantages obviously to having this kind of a subscriber base, ultimately if the number of views of my videos and if the number of subscribers of my YouTube channel cross a certain threshold what they are ultimately means is obviously I have that much more of a loyal following or a regular set of repeating eyeballs, which will ultimately translate into more consumption. Today someone was to if you were to take the Filmi Gaane, which has just crossed 2 million subscribers in the last quarter. Today if someone else from scratch start a corresponding channel of retro film songs when they put out a video it is going out to only a handful of subscribers because they have just started a channel whereas when I put up a fresh



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video it is going out to 2 million people, some portion of which will convert into views in a certain timeframe.

Kushal Sheth: Talking about that is there any opportunities say for instance we have there are new entrants that do not have access such a large subscriber base, is there any opportunity in terms of JV where there are other companies that already gone some content and we can leverage the large subscriber base that we have in sort of put out their content and have some sort of a revenue sharing deal?

Hiren Gada: There would be certain opportunities. In a lot of cases in fact we go out and end up licensing content because we would rather take overall rights and is viewed across multiple mediums and not just YouTube, but from time-to-time there are tactically certain arrangements to do with certain partners, first those kinds of arrangements as well.

Kushal Sheth: One more really quick question is if you could just give us a trajectory of a traditional media breakup over the next few years in fact if I am not mistaken it is currently about 78% and 22%, if you could give us some sort of a trajectory as to how that pan out over the next few years and when you think new media will overtake traditional media?

Hiren Gada: Well I would look for if we just map the current growth rate of traditional and a slightly lower growth rate for new media because the base was keep going higher. I would think that in the next around about four odd years we should be happy we would be 50:50 of the two.

Kushal Sheth: Thank you so much.

Moderator: Thank you. We have the next question from the line of Sarvesh Gupta, Individual Investor. Please go ahead.

Sarvesh Gupta: Thank you Sir for taking my question. I wanted to ask there is a lot of buzz of Amazon and other points and you said that they are primarily buying into the first media cycle, so are they buying perpetual rights or are they buying three, four, five year size as of now?

Hiren Gada: Most of the deals that they have been doing are three to five year kind of deals.

Sarvesh Gupta: So, you may have opportunity to participate in those?

Hiren Gada: Yes.

Sarvesh Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.



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- Yogesh Kirve:** Thanks for the opportunity again. This is regarding one of the previous question asked regarding the pent-up demand. Now I appreciate your point that ad revenues for your customers would be as a perishable commodity, but we would be dealing with the film rights right, so if there has been some delay in the content in last quarter that this should come back in subsequent quarter right?
- Hiren Gada:** I agree with it that it should come back, but I would not budget for that right now. I will put it rather that way. Because the fact is that there is a certain lost revenue, now that lost revenue will have an impact somewhere in last expense, so how much each player would look at each segment of their current operations and therefore what is the impact on film acquisition, etc., it is very difficult to map out because these are individual strategies and which is why at a high level if you see ultimately there is a certain revenue lost as far as the entire ecosystem is concerned or the industry is concerned, that will play out already to an extent it has played out, but overall it will in terms of catch up if it is not happening for the entire industry there is a certain revenue that the industry missed.
- Yogesh Kirve:** How exactly this will play out, every broadcaster will have to maintain certain inventory of films, so would have low inventory or you are saying the possibly realization also could take a brunt or hit?
- Hiren Gada:** It is difficult right now to say how it may play out, but all I am saying is that just to have that as I said that is difficult right now to map what each of them will do. Someone may come and say that we will maintain the library and therefore we will cut something else and continue to invest that is good news for us and someone may say that we will have a proportionate cut so there could be some deferment of this. For example, he is targeting either a certain number of films or a certain value of expense, he may differ some of it to may be next year overall things will be better for them.
- Yogesh Kirve:** Right. Thanks a lot.
- Moderator:** Thank you. The next question is from Pragya Vishwakarma from Edelweiss. Please go ahead.
- Pragya Vishwakarma:** Thanks. My question has been answered.
- Moderator:** Thank you. The next question is from Sachit Khara from Smart Equity. Please go ahead.
- Sachit Khara:** Sorry pardon for repeating the question. You said that a part of the pent up demand might return in the future right, but is it most of this dealing done in advance, so for example if your film right period starts let us say next year and continuous for another five years ideally you would be selling those rights before the commencement of that five year period right or am I mistaken in understanding that?



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- Hiren Gada:** No, so the deals happen in that way and in advance, but these are fresher acquisition, so what has been done and dealt with is kind of out of the book, out of the system has been recognized and done and over with, these are fresher deals.
- Sachit Khera:** Sorry, you said that part of the demand would not come right?
- Hiren Gada:** What I said was that if you look at the industry overall, so the ad inventory of any broadcaster, any TV channel or for that matter the entire media industry ad inventory is ultimately a perishable commodity right. If I do not fill 100% of my inventory today, I have fresh inventory to sell tomorrow, it is a revenue lost.
- Sachit Khera:** You mean that the broadcast is rather than buying fresh content to fill their fields will rechannel the existing content that they already have.
- Hiren Gada:** It could be that also, but just to reiterate the point that was being made is that basically as far as the industry is concerned whatever estimated Rs.800 Crores, Rs.1000 Crores or whatever final amount that is lost advertising. For example FMCG company or an automobile company has curtailed down its ad expenditure and that ad inventory of the broadcaster has gone unfilled. The next day's inventory or next month's or next quarter's inventory is again fresh inventory, so that revenue is lost as far as the industry is concerned. So what the point we were making is that will it come back, so is there a pent-up demand that movie acquisition or whatever demand is there, would it kind of coverup in this quarter. My limited point was that as far as the industry is concerned it has lost revenue. Now that revenue lost will translate into some curtailing down or expense across certain segments. So how much it will affect movie segment we do not know right now. It could be possible that it may not affect and which is a very happy situation for us, but if it does affect or is that pent-up may be get deferred over two years in terms of acquisition need. So that is the basic point that we were trying to make.
- Sachit Khera:** Make sense Sir! It might lead to let us say slightly lower IRRs for that one quarter inventory that you budgeted to sell or something like that, some adjustment will need to have basically?
- Hiren Gada:** We are deeply engaged with the broadcasters in terms of conversations, etc., so right now I guess none of us even they do not have full clarity in terms of whether how they will kind of come back on each of these segments.
- Sachit Khera:** Thank you for elaborating on that. Thank you.
- Moderator:** Thank you. We will take the last question from the line of Lala Ram from Vibrant Securities. Please go ahead.
- Lala Ram:** I had one question going forward how this business can shape up in our best case scenario, so as you are saying that as we increase our new media side and working capital sinks we will be able



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to fund the inventory through cash from operations right and hopefully we will have some left to repeat it, but do not you think that with lower inventory purchase the growth itself is stagnant for company, is not it a prerequisite to grow buying inventory, so can this cycle ever seize?

Hiren Gada: If we look at what is the normal business cycle for us, is that we bought content, we warehouse it and sold it and realize the money. If we rewind back to may be about four odd years back is a little more probably is when we started this whole investment sales, which was in anticipation of various growth triggers that growth drivers that we are looking forward to. Now in anticipation of that we kind of ramp up on the library or in preparation for that we ramped up on the library and all of that. The whole idea is now we go back to a normalized cycle, so which would definitely to grow more you will need to invest more, but the whole point is that the capital needed to invest for that would come out of the cash flow generators internal approval that is one plus the library that has been built up, a. already given a certain scale, but b. it will also ultimately continue to yield return, so it will obviously help us further in the growth.

Lala Ram: So do you mean to say that even with lower inventory run rate purchase, you would be able to maintain the kind of growth, which we are doing currently, is it fair to say that?

Hiren Gada: That would be the effort and that should be the target.

Lala Ram: So is there a possibility of generating free cash flow, so obviously we will buy content from the cash to that this okay, correct, but will there be something left after buying content is it possible that we actually generate free cash flow and pay dividends, still paying dividends, but significant generating fee possible in the business or no?

Hiren Gada: Inherently the business has free cash flow generating ability. In terms of for us the ramping up an investment cycle now getting over, it is the next face, which is a ROCE cycle that has to start and play out and we are fairly confident that the business does have free cash flow generating ability.

Lala Ram: The accounting aspect currently we are mostly expensing right because traditional media we assume 90% comes from there that is what we are following 90% in the limited rights we expect 90% of the cost?

Hiren Gada: Sorry I missed the question what you said.

Lala Ram: I am saying is that with the change in the revenue mix of our business towards new media do not you think the way the expensed cost should change as a climatization cost content?

Hiren Gada: Sorry, the line is a little unclear, but I will just try and attempt to answer the question. Two things, yes that 90:10 mix obviously we review it every year and to that extent it does undergo changes. The other part is in terms of the overall manner of charge of I think it is fairly following the revenue cycle that is being received.



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- Lala Ram:** So you do not think that there is any...
- Hiren Gada:** 90:10 definitely is up for an annual review, so that is not an issue at all.
- Lala Ram:** So expensing is in line with the revenue you are saying, there is no sort of change required there?
- Hiren Gada:** No, we review it every year and change it as needed as per the contribution that the content is generating.
- Lala Ram:** Got it and last question on the new media side. I think are we also investing ourselves on small content I mean short form content right we have just comedywallas and all that stuff, so can you throw some light on the kind of investments, which we have made in hiring and the short form content if we are creating on our own, so if you can throw some light on the kind of initiatives you are taking and what is the ultimate way forward apart from the typical movies, which we are obviously monetizing and slicing the content, but apart from that what is do we plan to do in this side and monetize the huge subscriber base, which we have?
- Hiren Gada:** Couple of things that we have been really trying to do here. One is obviously there is a certain need to create certain short form content, given the kind of media the way in which it is headed in the way where the customers are headed, so that is something that we kind of looked at. Now couple of aspects to that, one is we looked at how we can monetize it, so we looked at creating service on the DTH platform, so there is a comedy service running on the DTH platform, which in a way is able to cover certain cost of that. Because the challenge in creation is revenue recovery and the overall controlled cost, so the other aspects that we did in terms of doing controlled cost is to some extent at least not full extent, but to some extent do a lot of repurposing of our existing film content library itself to come up with some very funny movie based spin off the content kind of a thing, which is creatively very nicely packaged, so that kind of helps to reduce the overall spend and expense because what we are hearing from a lot of people on creation, the kind of thoughts that are being paid out, we find them at this point not very sustainable because revenues have not kicked in to that extent, but there are other strategic reasons as different people will be doing it, but we have tried to create all of this in a way that finally make financial sense over and above anything.
- Lala Ram:** Got it. Thank you.
- Moderator:** Thank you very much. That was the last question in queue. I now hand the conference over to Mr. Rohit Dokania for closing comments.
- Rohit Dokania:** Thank you everyone for taking time out for attending this call. Sir would you want to make any closing comments?



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Hiren Gada: No, thanks everyone for spending the time that is all I would say. Thank you very much for participating.

Rohit Dokania: Sure. Thank you everyone. You can now hang on. Thanks.

Moderator: Thank you. Ladies and gentlemen, on behalf of IDFC Securities that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.