



“Shemaroo Entertainment Limited Q2 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Shemaroo Entertainment Limited Q2 FY2020 Earnings Conference Call, hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Karan Taurani from Elara Securities Private Limited. Thank you and over to you Sir!

Karan Taurani: Good afternoon everyone and thanks for joining this call on Shemaroo Entertainment Q2 FY2020 results. From the management side, we have got Mr. Hiren Gada, CEO & CFO of the company and we also have Ms. Kranti Gada who is the COO of the company. They will be sharing some kind of business prospect and dynamics for this quarter and then we can start with the Q&A. So over to you Sir

Hiren Gada: Thanks Karan. Good afternoon everyone and thanks for joining the call for the H1 of Q2 FY2020 earnings call. We have reported the earnings for the first half, which is Q2 of FY2020 as of yesterday and the overall business is that for the quarter ended September 2019 total income has been lower by 8% to Rs.150 Crores and EBITDA has actually been lower by 31% to Rs.29 Crores and EBITDA margin from 26% has gone down to 19% and the profit after tax has gone down from Rs.22.96 Crores to Rs.19.40 Crores, which is a 15% drop and the PAT margin has gone down from 14.1% to 12.9%.

Coming on to the first half performance, so the total income has gone up by 2.7% from Rs.286 Crores to Rs.294 Crores. EBITDA has gone down by 24%. The margin has come down from 28.5% to 21% on EBITDA, which is from Rs.81 Crores to Rs.61 Crores and profit after tax has gone down by 16% from Rs.42 Crores to Rs.35.6 Crores and the PAT margin has come down from 14.8% to 12.1%.

On the breakup of digital and traditional media for the Q2, digital has grown by 20.8% from Rs.45.6 Crores to Rs.55.1 Crores. Traditional media has gone down by 19% from Rs.117 Crores to Rs.95 Crores and for H1; digital media has gone up by 22.8% from Rs.84.5 Crores to Rs.103.8 Crores. Traditional media has gone down by 6.2%. It has gone down from Rs.202 Crores to Rs.189.6 Crores.

In terms of key operational highlights, which we have reported so ShemarooMe as everyone is aware and we have discussed earlier is more a B2B to B2C distribution opportunity that we have looked at and for that in terms of various tie-ups. So one we have launched a new

initiative, which is 52 week, 52 premier services. We have moved the ShemarooMe onto the smart TV platforms for tie ups with Mee TV and Cloud Walker TV. We have also done partnerships with Ixigo, which is a travel booking portal and Dainik Bhaskar, which is a news app and that is on ShemarooMe.

In addition to that continuing from our preloaded business, we have launched two new preloaded audio speakers in this quarter, which are Ganesh Bhajan Vaani and Sri Krishna Bhajan Vaani. On the retail front, we launched two new services. One we launched the Telugu service on Airtel, Dish, and D2H. Second we launched a Punjabi service on Dish and D2H. As far as YouTube is concerned, we have actually grown the views, so we are now at upwards of 1.6 billion views in September 2019, so YouTube continues to grown. Our largest channel, which is Filmi Gaane, it became the fifth most subscribed channel in India and actually 36 in the world in terms of number of subscribers.

Overall, as we have discussed in the last quarter also and where we said that this economic slowdown and sluggishness has continued and will continue resulting in weak numbers, overall weak business sentiment and therefore a slowdown in ad spends, which for us particularly for the traditional media that is something that gets affected significantly in terms of revenue and that along with we have continued our ongoing investments in new product services, geography and people, which all put together has affected the margin. So that is the overall highlight of the P&L.

On the balance sheet side, from March 2019 we were at Rs.202 Crores debt. We are now at Rs.213.93 Crores, which is Rs.214 Crores. Debt equity is at 0.36. We were at 0.36 even as of March 2019. Inventory from Rs.602 Crores has gone up to Rs.680 Crores and receivables have gone down from Rs.159 Crores to Rs.140 Crores. So that is the broad balance sheet picture. With that I would like to throw open the line for Q&A. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dheeraj Dave from Samvad Financial. Please go ahead.

Dheeraj Dave: Just one question. You got an enabling approval for Rs.250 Crores for new equity or debt kind of funding, so what is the kind of reason to raise this fund and how do we see it. Is it some kind of new Capex or something, which we are doing or it would be normal content acquisition business? Can you give some idea about that?

Hiren Gada: Basically yes the board approved a potential equity raising so currently we are evaluating two new business opportunities particularly in the distribution space and these are

synergetic to our existing business and they are expected to contribute significantly to our 5X journey and accordingly we are looking to raise up to Rs.250 Crores of funding in one or more tranches by way of issue of equity shares or preference shares or any other related instrument.

Dheeraj Dave:

Can you give some more color basically what this distribution side in the sense would be something what we do acquisition of rights for traditional media or something else whatever?

Hiren Gada:

As I said there are two different opportunities that are being pursued. It is very early days or rather I would say it would be unadvisable for me to give more details beyond a point, but distribution for us so if I have to also give a little additional thought in terms of overall thing is that given the fact that we have so much content and we have been investing significantly and continuously in content. Expanding distribution so like the way we did ShemarooMe earlier, but similarly expanding distribution across will in a way help us to be able to monetize the content much more.

Dheeraj Dave:

The second part of question is first time we see digital growth less than like around 20%. Generally, it has been in the range of 30% to 35%. Is it like quarter specific thing kind of it is the new normal for now?

Hiren Gada:

Two things we have been discussing at least in the last two or three quarters. One is the fact that the Telco business is transitioning from the feature phone to a smart phone business and there is going to be a gap in between, so partly that contribution of Telco business has now come down. In fact it is a degrowth of Telco business, but the others have grown and filled up that space and therefore been able to give us overall growth so that is one thing and second is of course now we are at a reasonable base, so from here onwards if we see even the industry projections they are all in this range of 20% odd and 25% kind of range, so we are definitely moving towards an overall lower normal at least in the medium term.

Dheeraj Dave:

Fair enough. Thanks. Wish you all the luck.

Moderator:

Thank you very much. The next question is from the line of Amish Kanani from JM Financial Limited. Please go ahead.

Amish Kanani:

Sir about the decline in the traditional media, part of it could be of course a very, very sluggish advertisement growth environment and we saw one of the leading broadcasters telling us that degrowth in ad revenue is a single digit decline kind of a number for the industry, but our number is much lower, so the question is why is such a high decline in

traditional media business degrowth one? How much of that seems to be a structural thing and how much do you think is seasonal cyclical where basically the slowdown of overall thing and product launches and everything has kind of impacted that so if you can give us some color there?

Hiren Gada:

Two different questions, I will just kind of try and address that so if you see the first half then the decline in traditional is just about 6% so to an extent being a deal based business there is a certain amount of lumpiness that is there and definitely in the second quarter that is kind of a little more, so in that sense the decline is in single digit if you see the first half overall. Having said that if you see the way the year started, we started the year with a new tariff order coming in and that already created a certain amount of uncertainty, anxiety or overall market, the industry situation being very cautious and that was combined immediately with the whole ad spend slowdown. The good thing is that at least the new tariff order part has settled in very well and I think overall we are seeing good decent growth numbers on the subscription side, so that has been good, but it is a low base as far as the broadcaster is concerned. The key income swing for broadcaster has always primarily been advertising. So that is one aspect of it. The second is that if we overall see, if I have to put it in a slightly different way, the decline in revenue of advertising as well as the uncertainty on subscription and these kinds of things there is definitely an additional caution that everyone puts for content because content in a way was discretionary. You can make do with a certain amount of content in the short run. In the medium term you will need to replenish it, but in the short term you can actually do away with it. I think you can make do with a certain part and we are definitely in the middle of that, so that is really the explanation on that front. The second question is whether this is structural or how much of it is structural. At this point, I would like to believe and based on everything that we are hearing both on the digital side. In fact if I have to place three stakeholders in this, the digital players, the advertisers and the broadcasters, at this point virtually no sign of any structural shift in add dollars from TV to digital. Digital has been growing, but that is coming on the back of additional consumption so if we see most industry reports, the time spent on television has actually gone up in the last three years, which basically means that the revenue on that platform is still on the growth path, but digital has come in as a very fast end and high growth consumption platform and that has in a way created an additional market, so if I have to take a step back, there are different forms of consumption. There is a linear consumption and an on demand consumption at a broad level. TV is kind of fulfilling the linear consumption needs and the digital is fulfilling the on demand consumption. Now in India, which is still a highly under served market, we see at least for the next few years both of these segments continuing to grow and therefore considering all of that and this is a question we also have been keep talking internally. We are not seeing a slowdown as

structural at all. More seasonal or cyclical I would say. Definitely it is not seasonal. It is cyclical. So that is the short explanation for that.

Amish Kanani:

Sir two related questions here. One is we have seen this when I was referring to structural from our business perspective we saw few broadcasters taking off their FTA channel. That is turn may mean that the content that they wanted may be I am not sure whether the move channels of FTA have been withdrawn, but we are seeing some FTA channels being withdrawn post this new tariff order, so one how much of that is affecting us if at all and second as a part, the decline in Telco revenue within the digital pie we were hoping to kind of at least replace if there was no growth through ShemarooMe, so how is the traction there and is that the ShemarooMe growth is yet to kick in and before that only the Telco's are disappearing from revenue stream and how do you see combined these two effects on a likely medium term business?

Hiren Gada:

Firstly on the withdrawal of the FTA channels, I think firstly those channels have not shut down. Those channels are converted to pay so they continue to run and therefore there is a need for content on those channels. That goes without saying. Rather what has happened now is that the earlier thing they were catering to FTA kind of audience. Now they are catering more pay audience because those channels are converted to pay, so they need better quality content actually. That is one. The second what we are seeing is that at a broadcaster level so if we take any broadcaster if they move their FTA channel to pay so their mother channel has actually grown A. B, the affective rates on even the channel, which moved from FTA to pay has actually gone up significantly because they are now not catering to rural audiences and to more urban audiences. As a combination of both of these what we are been hearing from most of the broadcasters is that the pay revenue spike has in a way filled in some part of that FTA revenue loss as well as ER growth. The broadcaster looks at his portfolio. If he has two pay channels and one FTA, now all three are pay supposing they will make Rs.100 total on all the three channels are they near Rs.100 or not. Whatever be the breakup of that there may be a new revenue mix, but I think more or less everyone is in that zone now. So in that sense we do not see that rather as I said the need to move to better quality contents for the pay audience is actually increasingly being felt. That is one.

The second is on this Telco versus ShemarooMe, so ShemarooMe has now been deployed on Vodafone and Airtel video services and we in fact are working closely with those teams in terms of promotion and various events based and content based activities that are being done, but definitely this is not a one to one correlation in terms of the transition because the feature phone customer the profile was different from the smart phone consumer and it is still that penetration into of the smart phone consumer or the broadband consumer or the 4G

consumer, which is still I would say happening and along the way, so that gap is still there. My own sense is that it will take a couple of quarters for that gap to be filled up in some way or the other.

Amish Kanani: Sir one just clarification are we seeing that number of channels buying from us whether part of network or not, but number of channels cinema focus channels buying from us have they remained the same say pre tariff order and post tariff order Sir?

Hiren Gada: Yes absolutely. Because there has not been any reduction in the number of channels. The number of movie channels has in fact gone up. Two or three channels got launched in the last two quarters.

Amish Kanani: So that 19% decline that we are seeing is largely you are saying it can be taken as something, which they will hold back on inventory for whatever reasons?

Hiren Gada: Yes a combination so fundamentally our core revenue stream, which is advertising and that is seeing a dip kind of a scenario and today if we see even on a year-on-year basis most of the broadcasters who announced their results also they have expanded the number of channels, but their ad revenue has been lower or just about flat, so their per channel ad revenue has actually declined, so when that is a scenario, the scaling down on investment or content investment is a natural corollary and this is not the first time we are seeing this. This has happened multiple times in the past and our own sense is that this is highly cyclical.

Moderator: Sorry Mr. Kanani I will request you to come back in the question queue.

Amish Kanani: Just a last explanation part. Sir you said the subscription part of the revenue is going up and ad is going down, but may be if they are nearer 100 in overall revenue sense then why should they be so cautious on investing is the question?

Hiren Gada: I think we will see this story play out over the next two quarters. The subscription side comes with a set of uncertainties, yes because TRAI had come out with second consultation on the whole NTO, which further curtailed the wings of subscription potential and so on and so forth.

Amish Kanani: So they are early days?

Hiren Gada: Sorry.

Amish Kanani: You are saying they are the early days?

- Hiren Gada:** Very early days on subscription so that uncertainty, sustainability and month-on-month fluctuations, people have not seen one full cycle or even one full year of subscription to say they are okay, what is the new normal on subscription and therefore how much to really bank on that subscription. As of now the initial trends are very encouraging, but as I said earlier also in terms of revenue mix advertising has always been a significant contributor to this, so if we were to take that I think that is where the general slowdown has affected. It has affected cash flow cycles and elongated stuff like that so all of that finally has an impact on the propensity to invest.
- Amish Kanani:** Much appreciated. Thanks a lot.
- Moderator:** Thank you very much. The next question is from the line of Gautam Trivedi from Nepean Capital. Please go ahead.
- Gautam Trivedi:** This is Gautam Trivedi here. How are you? Regarding the new audio products that we have come out with how have they been received and can you give us a sense of what has been the number of the units sold, what is the demand like and has the pricing been expected?
- Hiren Gada:** So as we announced last quarter that we have been launched. This is festive season so to say because these are being devotional oriented products; the festive season is a good season for these products to do. Actually I will ask Kranti to explain more about this.
- Kranti Gada:** I just want to say that this quarter, Q2 has actually been the quarter of us expanding and deepening our distribution, so we have actually setup distributors across the country, they have distributed a huge number of retail outlets. Now we have tie ups with almost all the top leading large format outlets. The response from distributors eyeing to get distributorship of these products as well as some retailers in terms of ease to get placement have both been very, very encouraging and consumer feedback what we are getting initially from the ground in the last may be 45 days had been extremely encouraging in terms of the features that we have incorporated, the quality of the speakers and the shape for this product. I think the true demand is now being experienced in the festive season in the last three to four weeks and we are also waiting to actually now see how the whole tertiary plays out. We have also had a lovely ad campaign. You have seen it on TV, which has been very well received again by consumers and retailers. Currently looking positive, but I would say very early days to see finally how the tertiaries have happened. They will be the final test for us.
- Gautam Trivedi:** That is fine. I understand that it has been encouraging, but I think what we wanted to get a handle on was units sold? I think basically has explained because for example a friend of mine just gifted me a Caravaan as a Diwali gift and frankly not that I was looking forward

to it, but the fact that it has come as a gift and have people started using this for Diwali gifting and are we ready at the backend with the numbers to meet the demand? How is your supply chain going with respect to the product?

Kranti Gada:

We have built out a stock again in this quarter. We have invested in looking afresh at some of the packing and have come out with actually gifting specific packaging. We have built up our inventory to cater to the festive demand. The distribution on ground what we measure by the width of our distribution and the amount of stock in the market has gone smoothly and well. Gifting we believe and we would like to believe some early few cases that we are just seeing in the market have also begun. We have also got in corporates for gifting this product to their clients and such so we do want to ride on the whole Diwali gifting sentiments that is the whole aim for us.

Hiren Gada:

We have already executed a few corporate gifting orders for this and Kranti said it is still early days for this, but the initial feedback is very good. In fact a few high network individuals have also come and brought in bulk numbers, which I am assuming is obviously going to go for gifting, so that is the initial, but as Kranti said these are very, very early days. This is just a first quarter so to say of this product.

Gautam Trivedi:

One more question from our end, which is on margins and we hear you on the fact that business has been sluggish therefore the revenues have come off, but margins have come up quite substantially from Q2 last year? Can you throw a little more light?

Hiren Gada:

First let me talk about the first half of this year the Q1 and Q2. Essentially it is a lower top line particularly on the traditional media and therefore there is a lesser profit pool available overall and that combined with the fact that some of the businesses are in a set up and investment mode particularly the devices business and ShemarooMe both. There is a certain cost build up on those businesses, which you can say quite in a way front ended kind of a cost and that has further affected the margin, so one is the lower top line overall has affected margin and we have continued to invest, for example for devices so this is a festive season. If I do not invest in this festive season there is no point me making ads after January, February and March, so that spend we have taken. There is an impact on the margin and there is an additional impact or rather I would say it has got a little more magnified because of that.

Gautam Trivedi:

Obviously one cannot predict a business environment, but in terms of the expenditure that you have incurred for ShemarooMe or new setups when do see your margin normalizing and those costs being absorbed? Will that take a quarter or two or longer than that?

- Hiren Gada:** It is very early days. I will actually reserve my comment on this right now.
- Gautam Trivedi:** Thanks a lot.
- Moderator:** Thank you very much. The next question is from the line of Yogesh Kirve from B&K Securities Limited. Please go ahead.
- Yogesh Kirve:** Thanks for the opportunity. At this point of time what is your take regarding the traditional media revenue growth, so what time the growth can normalize? The last time I think we have seen this sort of a decline post demonetization and it had taken about two quarters for growth to come back, so what would be your assessment at this point of time?
- Hiren Gada:** I think considering the fact that this is overall economy lead technicality. All of us I think will wait with bated breath on the overall economic environment. I would say that the festive season there has been a cautious optimism. It has not been a full blown thing yet, but there has been a cautious optimism is what we understand from all the partners across the ecosystem that it has not been a washout, but it is probably not yet reached that radar kind of a scenario so there is a cautious optimism on that. Personally, we feel that there are at least as far as consumption basket is concerned there are a few procyclical trends, which are there. We had a good monsoon; interest rates are low and things like that which in a way good boosters for consumption, now are when this plays out, I think all of us are kind of waiting with bated breath to see how and when this plays out.
- Yogesh Kirve:** Given the expectation at this point of time on the revenue, so how are we looking at the current content purchases, so in the first half what we have seen the direct operational cost is about Rs.180 Crores and the inventory has gone up by about Rs.78 Crores, so about Rs.260 Crores of purchases, so what would be the plan in the quarters going ahead to considering the sort of revenue which is subdued, so would that be purchases too can be little more measure going ahead?
- Hiren Gada:** Two things are there. One although a smaller number, but part of the inventory growth can be attributable to the devices business also, because in the pre-season situation and in a pre-launch of phase we have stepped up on devices in fact just previous when we are having the conversation on devices in terms of potential availability for the suppliers for festive orders and bulk orders and stuff like that. We actually taken that, so there is an investment in setting up that business, some part of the inventory to an extent can be attributable to that, although not significant I would say but there is some part of that. Secondly, I think what we are now probably reaching a point as an industry where the content prices are coming off to some extent and it could give us certain good entry opportunities in some

content, so that right now we are also evaluating that in terms of how do we play this obviously considering the short term aspect that there is lower spend by broadcaster, but this is normally we do not play this kind of a thing for one or two quarters, we play it for a couple of years and from that point of view actually there could be opportunities, although right now I am not saying that we are going full blown into that and investing, we are also cautious about it overall.

- Yogesh Kirve:** Any guidance for any indication regarding the year end, how the inventory can look like?
- Hiren Gada:** Very early days at this point Yogesh, my best bet is would be marginally up, but right now it depends on even on in terms of sales when monetization and things like that so right now it is early days to comment on or give any guidance on that.
- Yogesh Kirve:** Marginally you're referring from September levels?
- Hiren Gada:** Yes.
- Yogesh Kirve:** I appreciate, that is all from me. Thanks a lot and all the best.
- Moderator:** Thank you very much. The next question is from the line of Ankit Gupta from IndiaNivesh. Please go ahead.
- Ankit Gupta:** Basically regarding the fund raise which we have resolved in our board meeting I just wanted to know some timeline valuation kind of partners, what are we looking for in terms of this fund raising and what would it be primarily utilized for because in our current business our cash flow position seem to take care of our investments which we are doing in terms of content and in terms of expenses with regard to the new businesses, so if you can just explain a little bit more in detail it would be helpful.
- Hiren Gada:** I agree with you that there is not any current need to be funded, so very rightly what you said that our current business cash flow are supporting all our current needs and our new initiatives as well, but we are looking at two projects in terms of new business opportunities at this point in time. The closest synergistic for existing business, but at the same time expect to contribute significantly for our 5X journey and for that what we thought is we do not want to be in a situation, so typically this approval process takes about two months and then it is valid for another 12 months, so we do not want to be in a situation where we are ready with the project and at that point we have to again go in for an approval. In a way I would say this is an omnibus approval that we are speaking and based on which of the projects we green light we will specific to that project we will look at the fund raise based

on the specifics of that projects need, so right now in that sense this is just omnibus approval that we are seeking.

Ankit Gupta: But Sir any timeline when we are looking to raise funds because – and to launch the new projects and all things like that?

Hiren Gada: To be honest at this point I am not able to give too much details because some of these projects are a little confidential in nature, but timeline if I have to put it, so one project if it kind of mature then actually gets green lighted, we could launch it within the next six to eight months and the second one is slightly longer because it needs certain other conditions or aspects to that project, so that is the overall timeline if I have to put it.

Ankit Gupta: Are we looking at some financial investor or some strategic investor for these projects?

Hiren Gada: All options are open at this point in time. We are not averse to either of that, finally for us what adds value and helps to build that business significantly well; it is something that we will go with.

Ankit Gupta: The second on the business side Sir, I just wanted to know that we have added Rs.254 Crores of inventory or we have bought inventory of Rs.254 Crores during the first six months which I think at a very elevated level as compared to our past trends with what we have been doing, so will the content purchase be as aggressive going forward or we are planning to liquidate some inventory and try to monetize it or generate some cash flows out of it?

Hiren Gada: No, the idea is to create generate cash flow, we have to turn it to over and have turnaround on that, I will have to revalidate the number that you are seeing, but anyway right now I am not disputing that number. My own sense is that lower than that, but anyway...

Ankit Gupta: It can be Rs.10 Crores, Rs.15 Crores here and there I am just giving rough calculation which over the result?

Hiren Gada: But in a nutshell if I have to put it basically we want to monetize the library and continue to churn the content, so that obviously there is no doubt about.

Ankit Gupta: But Sir any number on monthly basis or...just I am finishing out, on a quarterly basis or on a monthly basis how much content are we planning to buy next six months kind of any budgets sort of if you can share?

Hiren Gada: In fact even one of the earlier questions also was on this line as I said that it is a little premature at this point, because given the overall industry scenario, we also want to go with that and combination of two things are happening, one is content is getting available now at lower rates, so investing in a downturn is, that is one of the aspects and therefore as I said even in my earlier response is that we are not looking at this from one or two quarters point of view, this is a two to three year kind of a story and or two to three year kind of a thought process and or on a outlook and in that kind of an outlook content available at lower rates always makes it significantly better.

Ankit Gupta: Okay, great Sir. Thank you.

Moderator: Thank you very much. Next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: First one suggestion when we go through your investor presentation there is hardly any number which is useful apart from the split of new and old revenues, so I think where we are lacking is in terms of giving market any number which shows how we are growing and what positive steps we have taken because there are some tie ups or something that we announced every quarter, but we do not know what is the explanation in terms of numbers on the same, so if we can improve on that aspect that would be useful.

Secondly we had guided earlier that we will keep our inventory the same, but now as the previous participant has also asked that has gone up quite sharply, so is it because of lower sales that our inventory has increased or something else?

Hiren Gada: It is a combination of actually I would say three things. One is lower sales, because there is some content which was in discussion and negotiation etc., but not materialized in terms of deal, second is as I said earlier also there is a very small amount of additional investment for the devices inventory and third is some amount of content investment where we saw that certain prices etc., have moved more favorable.

Sarvesh Gupta: Okay and second question I think again in form of an advise, we are not able to see any tangible benefits of the increase in the cost phase that we have done over the past so many quarters and while we are saying that it will happen in the future where we are struggling is to see any tangible benefits, so I think we will have to come up with some way to show that tangible benefits in the coming quarters, because otherwise it is looking like our cost base is going up, we plan to dilute equity when valuations are so low and we are almost at the IPO price where we were five years back, so we will have to come up with some ways in which we are able to show the tangible progress to the investor community at large. Right now it is

not just visible in terms of the numbers; in fact it is looking like we are not doing very well on that front. So these are the two limited suggestions or thoughts. Thank you Hiren and all the best.

Hiren Gada: Kranti, just want to...

Kranti Gada: I would say that thank you and we have embarked on project in this year and next year and while the numbers in terms of revenues are yet to reflect, but in terms of initiatives that we put on the market which will probably bear in the next couple of quarters are already there whether it is a devices business or ShemarooMe, these projects take investments in terms of putting out the product as well as the talent that goes behind it. So we do hope that in the next few quarters we will be able to see some tangible numbers coming out of these projects.

Sarvesh Gupta: Even if revenues are not meaningful may be the cost are meaningful so we should at least show what are the cost which are associated with our new initiatives, because we are not able to ascertain the profitability of the core business right now.

Hiren Gada: Sure.

Sarvesh Gupta: Thank you.

Moderator: Thank you very much. Next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I just wanted to enquire about 18% IRR, since margins have been falling now it is almost 19%, so how we planning on maintaining our IRR?

Hiren Gada: Two things I will say, one is that the effort is at content level the IRR should be achieved. Second is definitely and this is something that we had discussed last quarter also that we have done a few low margin deals where even the IRR would have taken partial hit, that was the scenario that we were seeing in terms of demand potential upcoming demand slowdown and on the other hand freeing up that cash flow where we could invest in new initiatives or in lower cost content so that is definitely been the case, particularly in this first half.

Shikha Mehta: Is my understand is correct that means we might have done a few deals which are say lower than 18% IRR at that time, but over a longer horizon may be in a year or so our content will deliver 18% IRR, correct?

- Hiren Gada:** Yes.
- Shikha Mehta:** So would that translate into our margins for this year and may be FY2021 being crisper?
- Hiren Gada:** I would imagine that this year obviously the first half has taken a beating, so if I have to take a full year view, second half right now is still open, we are still just about 17, 18 days into this current quarter also, so it very early days yet to talk about this second half of this year, but we are hopeful that even if the economy overall comes back at least to a normal trajectory, not some great growth, but a normal trajectory we think that ad spend will come back reasonably well, because we are ultimately a consumption base economy, a consumer economy and brand building is something that every consumer brand will have to continue to invest in, newer consumer brand, newer e-commerce players etc., will invest, so I think if we are reasonably back as an economy I think we should be okay in the FY2021 financial year.
- Shikha Mehta:** Right, so for the first half year numbers, could you give a breakup of revenue from all our new projects, like ShemarooMe, the devices or even the astrology subsidiary?
- Hiren Gada:** We have not given that breakup and right now we are not giving it, so we will have to figure out someway to do this proxy either a data or in some other way proxy data to give in fact that was a point of the previous caller also, so let us also figure out little bit more on that and see what data within the realms being competitive that has been a major consideration aspect for us which held a lot of data because lot of data is confidential or I would say competitive in nature, so within that realm let us see what best we can do and how we can give best more proxy data on that.
- Shikha Mehta:** Lastly, we normally maintain that we grow faster than the industry both traditional and digital, so what would be the industry growth and what is our expected growth?
- Hiren Gada:** Ad spends had been minus, I would not say that there is minus, single digit percentage on the ad spend. On digital overall we are at between 20% and 25% as an industry, for us we are in that transition phase of the telecom revenue being transitioned to the other platforms and that has caused the slightly lower growth or inline with industry kind of growth.
- Shikha Mehta:** This is transition period right, so it should normalize and we should be growing faster 20%, 25%?
- Hiren Gada:** Hopefully yes.

- Kranti Gada:** When new initiatives are going I am confident that the coming quarters, we should be able to beat the industry.
- Shikha Mehta:** Thank you.
- Moderator:** Thank you very much. Next question is from the line of Sachit Kheda from Smart Equity. Please go ahead.
- Sachit Kheda:** Good evening Sir. I would like to know about the difference between your regional and Hindi revenues if that is possible because we see a lot of regional channel has been launched, but in spite of that the traditional revenue has been down so heavily, so if you could throw some light on that that it will be very helpful.
- Hiren Gada:** Regional and Bollywood is what you are saying?
- Sachit Kheda:** Yes.
- Hiren Gada:** Let me give it to you in a slightly different way at an industry level, so we can breakup the industry in probably three broad clusters. One is Bollywood, one is south and then there is a non-south region. So we are not present in the south base regional and south base regional is a significant numbers for various reasons and we are not present in the south base regional content and if we take that off, then at an industry level, my own sense is that Bollywood would be probably upwards of 70% may be about 80% of the business generated and all the other non-Bollywood, non-south region whether it is Gujarati, Punjabi, Marathi etc on the TV side would be the remaining part.
- Sachit Kheda:** Okay, so you are present in platform such as Bhojpuri, Bangla, and Punjabi all those things?
- Hiren Gada:** Yes that we are present.
- Sachit Kheda:** Is it like even those places the inventory cumulation by the broadcasters has been flat or those are growing and Bollywood is degrowing a lot more, how would you categorize?
- Hiren Gada:** This has been a more generic trend in general except for someone who is in a launch phase needs a certain critical mass content to launch, but post that on a steady state we have seen fairly similar behavior on the challenge which are running in a steady state scenario.
- Sachit Kheda:** This telecom transition phase in the digital revenue stream, how much would telecom be as a percentage now, if I were to take this quarter for example?

Hiren Gada: So roughly I would say between 30% and 35% now, so if I have to put at a broad level, the telecom, YouTube and syndication are roughly in a similar zone, there is a marginal difference, telecom has come up from 55% odd now 30%, 35%.

Sachit Kheda: But you also mentioned that telecom was sort of transitioning, it was moving towards the ShemarooMe platform right, so I mean if we were to include that cannibalization that would mean that the remaining digital would have still grown in 25% to 30% range, if we were to even consider that cannibalization?

Hiren Gada: Absolutely that is what I was alluding to even to the previous that we have actually grown faster than the sector, but one large revenue mix piece which is kind of transitioning and that affected overall picture, so total picture is affected by that.

Sachit Kheda: Okay, last question Sir, the employee cost, how much more hiring they plan to do, because I think that is a little bit disconcerting considering the macro challenges that we are facing, now we understand the initiative is important, but this hiring has been going on for two years and now it is really starting to hit the P&L a lot more than we would have expected, so do you expect more hiring this year?

Hiren Gada: On a steady state I think we are fairly in a good zone and I do not expect much more, whatever run rate we now are at, we will be more or less flat on that at least for the next coming few quarters. Based on the new initiative business opportunities that we are evaluating that will have its own team and some additional people requirement as a part of that project, so that right now it is early days to talk about, but otherwise on a steady state now we are more or less I would say in a good position now.

Sachit Kheda: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Nimish Desai from Sunset Consultants Private Limited. Please go ahead.

Nimish Desai: I think he spelled out the wrong name of the company. I am with Kitara.

Hiren Gada: Hi Nimesh.

Nimish Desai: To begin with, I have questions for the two segments of the business. First is that, our main raw material is the content. Can you give some detail that in last six months how much new content we have done acquisition of Capex towards and what is the plan for the next six

months or one year? Because that is very important, if that stock is in a declining condition then our business model is under threat?

Hiren Gada: The overall number if you see itself shows that there has been a continuous addition, in fact, actually if I have to see one of the operational announcements that we made also which is that we have launched 52 week premier service on ShemarooMe and that has been rolled out on the various telcos and various partner platforms that we are working with. So this is in a way an extension of our DTH service at a broad level. So, that continuous content investment is happening for each of these specific initiatives on a continuous basis, so there is no stoppage of investments so to say. I think the larger question was given the sluggishness on the revenue side and on the sales side, we had a cautious approach on any big ticket investment and now we have been seeing certain correction in the prices, so that is kind of paving the way for an interesting opportunity somewhere down the line.

Nimish Desai: But this 52 week premier, that content lets say one movie will come for only one week and after that that content will be no more with you right?

Hiren Gada: That is on the DTH platform. That is a two-week window for the DTH platform. There are two kind of content that goes on the DTH platform. One is what we licence on the broadcaster typically, that is a two-week window, but apart from that there are a next set of movies which are not licensed from broadcaster where we have normally anywhere between three to five year kind of availability. Now, that is the content we are targeting also for ShemarooMe and there the availability of that content on the platform is for a significantly longer duration, but this is more as an opportunity where the thought to create an appointment viewing for the consumer to that okay, every Friday I will get a new film on this platform and therefore I can keep coming back to this platform.

Nimish Desai: But can you put a number on investment for the year on this overall content acquisition?

Hiren Gada: Difficult to put an image right now because it is confidential kind of thing.

Nimish Desai: No problem. On the devices business, as Kranti said that we have done a lot of tie-ups with distribution and all. Now this is the most difficult business I think we have entered because distribution is not an easy task and we have not done it before?

Hiren Gada: I would defer a little bit with that Nimesh. We started with home video distribution 30 years back. So physical distribution in terms of logistics, supply chain, managing distributors, managing stock, everything is something that we have actually spent many, many years doing that and therefore competency is in the organization, A. B, there are a lot of learning

curve in the organization and C, very, very important, there is a tremendous, I would say short of saying goodwill, but there is a lot of familiarity in the distribution network who have been dealing with us for years. I mean if I take Croma, Croma kept DVDs earlier, and now Croma is keeping our devices. If I say Crossword, Crossword kept DVDs and now they are keeping devices. So, this is actually in a way, if you see format wise, this is just an extension of our format. Ultimately you had a storage medium with content embedded on that. Very technically if you think about it, that is what video cassette was, that is what VCD was and that is what DVD was and that is what this also is.

Nimish Desai: Last 30 years, that entire distribution network is now working in a very different way and

Hiren Gada: But, our home media supply chain has always kept pace with that right.

Nimish Desai: For example, at that time Amazon, Flipkart were not there, you know one of the channels?

Hiren Gada: Even today if you go to Amazon, you will see our DVDs being sold even today on Amazon. So, we have been selling on Amazon and all of these platforms for years now. My point is that, there are a set of dealers who have dealt with us always for the last many, many years, so I do not see that

Kranti Gada: In fact a lot of that chain has actually now migrated to this kind of electronic media or electronic goods. So, we are actually dealing with very similar people. We are actually in a way reaping the benefits of years of goodwill that we have created in the market.

Hiren Gada: In fact, I had one more very; very important aspect over here is the consumer familiarity and as the consumer consumes Shemaroo products for years and years. So, this is not a new upstart brand coming into the business, this is just an extension of our business. This business comes to us I would say quite naturally in terms of our understanding of retail distribution in POS placement and stuff like that, this is something that we are been doing for years and years and years and that is why when we had to embark on this project, it came to us naturally in that sense I would say.

Nimish Desai: Another thing that I observed is that even Carvaan came out with Bhagavad Gita device and they are selling it around 2 grand and we are selling it in a range of 4, so I do not know about the content that how good or bad against ours, but price is a very important part in our India consumption story right?

Kranti Gada: I do not want to compare it with anybody else this product, but if you look at our product, I urge each one of you on the call, I would actually urge you to look at the product, the effort that has gone into creating right from the content to the physical form of the product to the easy of use that we have created through the remote control for the consumer. India, it is price sensitive but for these products I would say it is value conscious and the value that we are giving to the consumers for this price is immense in terms of whether you are talking about speaker quality, battery life, as well as the experience of using the product. For example you mentioned about Bhagavad Gita. This content unlike Carvaan, we have not picked up any content existing in our library and just put it out on our device. We have specifically created this content, recorded this content for this format, it is sung beautifully by Suresh Wadkar and Roop Kumar Rathod. We have actually curated life lessons around stress, love, anger; hope etc., which directly consumers can go to those shlokas and explanations about those shlokas. It is an incredible experience from the consumer point of view. We are already seeing not only orders, but a slate of repeat orders both from corporate and retailer, so we are genuinely not concerned about the price point on this one.

Hiren Gada: I think there are two different value propositions as far as the product is concerned if I had to summarize what Kranti said in a nutshell, you have a premium experience with a premium price and you have a different experience with a different price, I would say these are two different value propositions. I do not know the numbers on Carvaan product, so I am not able to comment whether it is worth, whether it is working or not, but all I can say is that we have a very, very good feedback and we are seeing translate in terms of the sales numbers and the business that is happening and that is in fact a consistent feedback from across the country, we are getting from the entire distribution network.

Kranti Gada: And across the products I would just like to say.

Nimish Desai: So after six months, hopefully this will be a one year old baby, so we will be able to have some kind of numbers on it, that how much we will be able to sell and make margin on it, but you must have made some kind of estimation of this business before starting. I know you have said that you do not give the breakup, but what kind of margins this business attracts or we will attract once the device business stabilizes?

Hiren Gada: This is definitely competitive information and I am not able to share that at this time.

Nimish Desai: But, will you be able to do it after six months or one and a half year, because if it will become an important segment in our business, most of the business gives margins and I am sure if this is the margin, nobody can copy the business right?

- Hiren Gada:** I understand where you are coming Nimesh. Let us I think go through a few quarters on this product, I think we will all see the scale at which this product stabilizes. Now even we do not know currently the scale at which it stabilizes, what we know is that we have a fantastic product. Now whether it will sell X or 5X, we do not know, but we will definitely look at, you know, wherever it stabilizes, our focus will be on making it profitable.
- Nimish Desai:** My last question is on the new media, have we now started improving our monetization from YouTube post that YouTube issue?
- Hiren Gada:** Yes, definitely it has improved.
- Nimish Desai:** So you see that problem is over or it is behind now?
- Hiren Gada:** There are two issues affecting YouTube right now. One is even the general ad slowdown is affecting YouTube also, but what is positive right now is that because it is a digital platform, many new investments and new businesses have been set up in the digital domain and those are continuing to advertise, but what is currently an overall challenge for everyone is that CPMs which are too low and with increasing inventory, the CPMs continue to head lower, but the spend has definitely been on an upward trajectory, no doubt about that.
- Nimish Desai:** Okay. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Yash Gupta, an individual investor. Please go ahead.
- Yash Gupta:** Sir our effective tax rate for the quarter was 9.1% and average tax rate was around 35% as now there is a corporate tax rate cut, it is around to be 25.2%. So, why the tax rate for the quarter was so low and if we take the normal tax rate of 35%, then our EPS will come down to around 4.5. It is for like-to-like comparison for our earlier quarters, so is there any particular reason for such a low effective tax rate?
- Hiren Gada:** The lower tax rate that we have announced was in the middle of this quarter, so previous quarter the tax provision was at previous tax rates. So if you see the first half, it will be broadly at 25.2%. If you see H1 total, effective tax rate will be roughly around 25%.
- Yash Gupta:** Okay, thank you Sir.

Moderator: Thank you very much. The next question is from the line of Harsh Beria, an individual investor. Please go ahead.

Harsh Beria: I have two questions, which have been kind of answered, but I just want to re-emphasize on it. You said that the expansion in the people, it is more or less stabilized now and there will not be a lot of expenditure in hiring new people in the subsequent quarters that is my first. Second one is about the preloaded business, I think mostly sell on Amazon, there was a good discussion on how it is compared to the other products which are also in the market, I actually had a bit of review on this and I think Shemaroo's Ganesh Bhajan and Bhagavad Gita are quite good in terms of their reviews, sure the number of reviews are much less, so I am not sure how sustainable it is. So, I am not sure if it is sensitive information, but can you tell me how much is the gross margin that we will make, not the overall margins, but just the gross margins with this product, that will be my second question?

Hiren Gada: As I had just discussed, at this point I am not in a position to share any of these numbers, but at the appropriate time when we reach a stable steady state, I think we will see what best we can share at that stage.

Harsh Beria: Okay. Thanks.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference to the management for closing comments.

Hiren Gada: Thank you everyone for joining and participating for the conference call for H1 and Q2 FY2020 earnings and we hope that looking forward to an overall improvement in the next couple of quarters in the business environment. Thank you very much for stopping by. Thanks.

Moderator: Thank you very much. On behalf of Elara Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.