

## Transcript

### Shemaroo Entertainment 1QFY19 Earnings Conference Call

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#### *Presentation Session*

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**Moderator:** Good evening, ladies and gentlemen. I am Pavitra, moderator for the conference call. Welcome to Shemaroo Entertainment 1QFY19 earnings conference call hosted by Batlivala & Karani Securities India Private Limited. At this moment all participants are in listen-only mode. Later we will conduct a question and answer session. Should you need assistance during the conference call please signal an operator by pressing \* and then 0 on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Yogesh Kirve from Batlivala & Karani Securities India Private Limited. Thank you and over to you, sir.

**Yogesh Kirve:** Thank you, Pavitra. Good afternoon to all the participants and thank you for joining in. We at B&K Securities are pleased to host this earnings call for Shemaroo Entertainment. To discuss the results and the outlook we have the senior management of the company represented by Mr. Hiren Gada, Chief Executive Officer and Chief Financial Officer; Ms. Kranti Gada, Chief Operating Officer and Mr. Jai Maroo, Director.

I would now hand over the call to Mr. Hiren Gada for opening remarks which would be followed by a question and answer session. Over to you, sir.

**Hiren Gada:** Thank you, Yogesh. Good afternoon and welcome everyone and thanks for spending time with us to understand our results for Q1FY19. I am very pleased to announce that our revenue for the quarter has grown at 18.3% to 123.6 crore rupees. The EBITDA margin is at 31.63% which is about 119 basis points lower on a year on year basis but at the net profit level we have grown by 22.6% to 19.5 crores which indicates a 56 basis points higher net profit margin. In terms of the breakup between digital and traditional media, which we have been reporting, so the digital media has grown robustly at 36.5% from 28.5 crores to about 38.9 crores. Traditional media has grown by 12.5% from 75.1 to 84.5 crores, so that's the overall flavor of the income flow. In terms of key operational highlights I am very happy and excited to announce that we have refreshed our corporate identity after 55 years with a new logo and tagline "India Khush Hua" after exhaustive research and understanding of the emerging trend and consumers.

Among other operational highlights we signed content deal with SHAREit, which is a popular file sharing app. On YouTube we've overall crossed 750 million views for the month of June which translates to 25 million daily views now on YouTube so actually from March to June also the growth in views continues to be almost; in fact it has growth

quarter on quarter actually by almost about 25%. Among some of our other channels like Filmi Gaane has topped more than five billion views and in terms of subscribers our flagship channel, Shemaroo, has crossed eight million, Shemaroo Kids has crossed one million subscribers.

I would like to reiterate the point that we have been talking about; some brands have pulled out advertising from YouTube saying some of their ads were shown next to hateful and offensive content and as a result YouTube has implemented stricter brand safety guidelines and therefore the overall monetization of content from YouTube has been impacted. On the DTH side we have launched a comedy service. We have extended it to the Videocon d2h platform in April 2018.

So these are some of the key highlights of the overall performance and I am happy to take questions as you all may have. Thank you very much.

### **Question and Answer Session**

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**Moderator:** Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

Sir, the first question comes from Mr. Vetri Raju from Equity Analyst Pvt. Ltd. Please go ahead, sir.

**Vetri Raju:** A good quarter. My first question is on the industry as a whole, as we all know the OTT business is actually coming up very fast and with Reliance Jio Fiber and so on people may actually stream OTT into their TVs maybe not very far away, maybe in a year or two and all of them are actually spending a lot of money on their own content. Now, can you give a detailed color on how movie-based library.....what kind of future we can expect when everybody else is actually creating their own content? A detailed answer would be appreciated, Hiren.

**Hiren Gada:** Okay. Sure. Thanks Vetri for the question. So I think there are actually multiple aspects to it and two-three different ways to look at the whole thing. Firstly, if we think of the consumer the content need or entertainment need of a consumer is never homogeneous. A consumer is consuming multi-genre and multi-faceted content and if you draw a parallel from television which is the largest platform today where the consumer is consuming content; you have multi-genre channels already existing in which general entertainment channels have the highest viewership share and movie channels are the second highest viewership share and just from number that I remember, and I could be wrong a little bit, but in terms of range the general entertainment channels have roughly anywhere around 26% to 29% viewership share and movie channels are between 17% to 20% viewership share and other categories like, say, kids, news, sports, these three categories each have about 5% to 8% viewership share in total.

So there is no doubt that general entertainment category is highest and come to think of it there is a daily fresh content creation, so the equivalent of originals on digital what we may think of is already happening on television in the form of (not clear), right? Each of the channels produce anywhere between two to four hours of fresh content on a daily

basis and that's is what is getting that 26% to 29% viewership share, but movie channels are a reasonably good second category and in fact all the others are in single digits.

So my own sense is that movies doesn't go away as a category if we think about it because – also another way to look at it is for a movie like, say, Sanju which is emerging as probably one of the top movies of the year. Now, the total footfall for a movie like Sanju is three crores in a population of 130 crores. So there is a very large base who has not consumed Sanju in theaters and there will be, therefore, the other media, whenever the film gets exposed on other media there will be a large set of people who would be consuming it. So I don't see films in general actually going away or getting, lower in terms of consumption. According to me if we draw parallel from television behavior it is of course a question of each genre or each format and even if we draw international parallel it is virtually the same story.

**Vetri Raju:** Okay. So thank you for the detailed answer. My next question is on the recent announcement of live darshan of religious places of different faith, I guess nothing is mentioned in the presentation, so can you give color on what is the expectation from the management in terms of revenues and commercials from that kind of audience and with some timeframe and some kind of a ballpark number if you can provide, that would be great.

**Hiren Gada:** Sure. So basically devotional category is a category that we have been focusing on for the last several years and we have been researching it virtually in all our calls from time to time basis. The last quarter for example we had tied up with Shani Shingnapur or in the previous time we would have done other tie-ups. So devotional is an overall category that we are focusing. In fact, I would definitely say that the amount of content now that we have put together I can't think of anyone else in the industry who would have done that much in the last particularly in the last three to five years video content.

So with that content what we have done is now we have put up, for example, eight DTH services on Tata Sky, Airtel, Dish TV and Videocon d2h both in the Hindu and Islamic, category so that's one area where the monetization is happening. Second, we have put it up on YouTube where we have multiple channels but your key channel over there is Shemaroo Bhakti songs and for Islamic it is Ibaadat, Shemaroo Ibaadat. Bhakti songs has, again, more than a million subscribers. Ibaadat has recently crossed 100,000 subscribers. So there is a certain amount of consumption and ad-supported monetization happening there.

We also heard that – obviously going direct to the consumer, having a B2C offering is important, so we basically we have done kind of beta level we would say test launch of two, again, a Hindu and Islamic app. So our Hindu app is now called Shemaroo Bhakti and Islamic one is called Shemaroo Ibaadat. We think that it is definitely a very interesting opportunity because devotion is a category that is permanently consumed by audiences. What we have done is we have extended not just content, we have added services to it, like, we have added on the Shemaroo Bhakti app you can order prasad, you can even order puja which will be performed by a pandit that we have tied up with and similar such services are there. So there is a lot more backend buildup happening for this to really get to the full-fledged stage. Once that is there I guess, that's when we would see a more full-fledged visibility of this particular app.

**Vetri Raju:** Can you share some numbers maybe on a long-term basis if you can, three years, five years?

**Hiren Gada:** Well, so conceptually devotional category, I mean devotion in India as an industry is bigger than the film industry. But obviously I don't expect, you know, that to, I mean it doesn't mean anything for us, but our thought is how we can get into the more interesting aspects of it in terms of where monetization can happen and where we can use technology to monetize it and these are many initiatives and efforts towards doing that.

**Vetri Raju:** Okay. Thank you very much and all the best.

**Hiren Gada:** Thank you.

**Moderator:** Thank you, sir. The next question comes from Ms. Pragya Vishwakarma from Edelweiss. Please go ahead.

**Pragya Vishwakarma:** Yeah. Hello, sir. So my first question is on the vision which you shared, like, you know, five times in five years, so for us to achieve that we should be growing at more than 35% kind of a rate. So if you have to give some color on which are the key growth areas in digital and traditional media that will be contributing to this growth rate and is there a new segment that will be we will be adding to this thing? And is the growth more back-ended or it will be more of an even kind of a growth rate for us?

**Hiren Gada:** Sure. So there are clearly three-four different ways that we can look at the whole thing. One is as I mentioned that time is the big picture that the overall media entertainment industry is roughly at around \$12 billion and expected in five years time to grow to about \$20-21 billion roughly, so that's one aspect that the opportunity available is humongous. So that's the landscape. Second is the overall digital space the way it is growing and the number of digital video consumers which has as of March 2018 estimated to be about 250 million users and the projection again over there is doubling in roughly three years' time and tripling in about five years' time. So 500 million in about 2021 and 700 to 800 million by 2023, so that's the other landscape change. Now, as far as we are concerned there are – so one is we have existing business that is obviously growing at a certain pace. Second is there are newer initiatives that are being added and being worked on. Like, devotional as we just discussed is one such category or one such area in which a certain focus of the business has been – the organization has been put and we are definitely working to see and create that as a category where we have a certain level of leadership as far as the market is concerned. Similarly aligning with more consumer needs because when this number grows from 250 million to 500 and 700-750 million, the new set of consumers that gets added comes from a different socioeconomic background, different geographical background and therefore their needs, again, would be quite different. So already we are working on many such activities and initiatives; in fact the last about six to eight months we have announced many recruitments, so many of them are directed in that direction where there are newer initiatives that would get added.

To answer your other question of will the growth be back-ended, I would imagine it would be more back-ended, the reason being that many of these – so one is the market itself, the way it is growing, the number of users, etc., is also to that extent a bit back-ended. Second is the initiative that we are working on; there is a starting point and then

at some point they start scaling us and there are multiple initiatives that we are working on in terms of seeing that how the content investment that we already have put in how that can be vetted more, how that can be aligned more closely to the consumer needs and preferences. So to that extent many of the initiatives, one would probably see a certain initial phase in the next three to four quarters and some of them would ramp up in a further year, two-year time frame, some will take three years to reach a certain scale. So I would imagine that the growth would be more back-ended.

**Pragya Vishwakarma:** Okay. Thank you, sir. My second question was that if you see our new media revenue, in last four quarters the growth rate has been coming down and this quarter especially it is below 40, so we have grown by some 36%. So how do we see new media going ahead since there has been a trend in the last four quarters that the growth rate has been tapering and what are the key reasons for this?

**Hiren Gada:** So in fact we have been discussing this over the last two quarter calls also that we have had. Fundamentally I would say two or three things. One is of course there is a certain base effect, so number wise the growth is decent, but percentage wise the same number looks lower on a higher base. Second is the fact that – so if you look at industry projection, in fact last quarter I had also alluded to this fact that the industry projections have been tapered down from which were erstwhile 30-35%, industry projections have been tapered down to between 20%-25% and our effort always has been to grow at, at least 5 percentage points higher than the industry overall and if I have to further give a slight flavor or break it down a bit more; one factor is that, for example, YouTube has not grown now based on the overall total growth impact because YouTube is all said and done the largest video platform in the country at this point in time.

**Pragya Vishwakarma:** Okay. I will join back in the queue if I have further questions. Thanks.

**Hiren Gada:** Okay.

**Moderator:** Thank you, ma'am. The next question comes from Mr. Nimish from Kitara Capital. Please go ahead.

**Nimish:** Hi, Hiren, Nimish here.

**Hiren Gada:** Yeah. Hi, Nimish.

**Nimish:** I just wanted to know that in the growth of traditional media it is 12.5%. Now, is it because that Q1 previous year was a low base because of hit of demon and that's why the higher percentage or now I should consider it as a new normal because you have always guided below 10% for the traditional media?

**Hiren Gada:** No, this I would say, what we have said is that the industry growth is in that range of around 10 odd percent and we target about 100-200 basis points higher than the industry level. Now, what was lost last year due to demon and GST is actually lost business for the industry, so that in a way in the final analysis is not now I mean – so therefore I would say this is in a way the new normal.

**Nimish:** Okay. And in terms of our library, you mentioned that we are 3500 plus, and also how are we now looking it at for this year in CAPEX for the full year?

**Hiren Gada:** The number overall has been growing at between 2% and 5% on an annual basis and I think that would continue. At this point we are basically fully funded for the acquisition requirement. So basically internal accruals that are being generated we are expecting that the CAPEX will get or the content investment will get funded out of that.

**Nimish:** Are we seeing higher cost for acquisition?

**Hiren Gada:** Sorry?

**Nimish:** Are we seeing cost of acquisition is going up because of many players or new platforms are coming in, like Netflix and Amazon which are jacking up the prices and all that.

**Hiren Gada:** So definitely because the monetization is going on the cost is bound to go up and that is happening, I mean so there is no doubt about it.

**Nimish:** Any number for the CAPEX for the year in terms of guidance?

**Hiren Gada:** I think net is should be, I mean net CAPEX should be negative, that's the target.

**Nimish:** That's all from my side.

**Hiren Gada:** Yeah.

**Moderator:** Thank you, sir. The next question comes from Mr. Hiral Desai from Anived PMS. Please go ahead.

**Hiral Desai:** Hi, Hireen.

**Hiren Gada:** Hi.

**Hiral Desai:** So I had a couple of questions, one was I just wanted to understand the traditional media revenues a bit better because if I look at the consolidated revenues, which I guess you guys have reclassified, the traditional media growth is about 12.5%, but if I look at the standalone revenue growth for this quarter, that is only about 10.5%, so what is the divergence between the two?

**Hiren Gada:** No, so in consolidation there are multiple entities so what you are saying in the consolidation is a total of all the entities which includes the airline distribution subsidiary or there are these other content subsidiaries that we have...

**Hiral Desai:** What would be the subsidiary revenue for the quarter because if I just knock off the stand-alone from the consol there is a difference of about 10 crores?



- Hiren Gada:** Correct.
- Hiral Desai:** So is that the number for the quarter in terms of subsidiary revenues?
- Hiren Gada:** Yes, yes, yes. Sorry?
- Hiral Desai:** Yeah, sorry, go ahead.
- Hiren Gada:** So the airline business is kind of a steady state business on certain growth so there is a month-on-month recurrence of that and one of the other subsidiaries there is – that business is a bit deal based so there is a certain amount of lumpiness in that business.
- Hiral Desai:** So, Hiren, if I were to just knock of this 10 crore of revenue that you have done this quarter then the traditional media core growth, which is the stand-alone growth is actually a negative number for the quarter.
- Hiren Gada:** No, no, no, you can't look at it that way because ultimately I am...another content and selling to the same customer and there has been an investment that has happened in the past for that so it is a part of the traditional media business that I am doing.
- Hiral Desai:** Okay. And this 10 crore number last year same quarter was I think about a crore or so.
- Hiren Gada:** Yeah possible, because the airline business had kind of just in a way started off prior to that so it was just gaining momentum and this one was still probably in an – in that quarter we may not have any deal in the other business.
- Hiral Desai:** Okay. Okay. I'll take it offline with you. The other question was specific to Reliance Jio. Now, you know, given that they are launching the giga fiber and they will, you know, eventually become a fairly important player in the entire digital media space. So apart from providing content or selling content that we are currently doing are there any other strategic initiatives that we are working on specifically with Reliance? I'm just trying to understand that, you know, how do you sort of leverage the existing content through your channel so that would be the broad idea.
- Hiren Gada:** Sure. So I am not able to comment on any specific negotiation, discussion or transaction, but I can give you a general thought process and working that we are doing is basically our own working for last few quarters has been how can we move away from like a traditional syndication and licensing into a more either a service oriented model and of a B2B, B2C kind of a model with many of the platforms. So to that extent the DTH business is a B2C, so I am not giving him x number of films or so many hours of content and he is not paying me based on that. We are actually building a service together, I am putting everything, I am managing everything and we are based on the consumer uptake we all are sharing revenue, so that is one model.

Similarly we are discussing, you know, working with various players and platforms that how can we move in that way, how can we be part of the whole offering in a more

deeper way and there are different ways to do that and so, like I said, I am not able to comment on any specific conversation or negotiation that may be on right now, but in general that's the thought process and direction and therefore I gave you an example of something which already we have executed or have been now working on for last two and a half years on the DTH platform and which has again been born out of that larger strategy and thought process exactly on those lines.

**Hiral Desai:** Right. Right. And the other is, I think Vetri also asked earlier, so the B2B, B2C where you run services like devotional, comedy, etc., for some of these D2H players, what is the revenue pool right now? I mean, if you can't quantify maybe if you could just give us as a percentage of revenue or something of that sort, just for us to get an idea of how large that is?

**Hiren Gada:** Well, what I can at this point without actually getting too much into the numbers what I can say is that in general it is positive, actually overall numbers are ahead of what we had originally planned and budgeted for. It is not some huge scale because these are all paid services and as you know in India finding paying customers is an all-weather challenge, but it is working along decently well and sustaining overall as far as us and the platform both are concerned so obviously they are all in a positive zone.

**Hiral Desai:** Okay. And lastly the employee cost, so if I look at it this quarter it is at about 9% of total income, last quarter was about 9.5%. So internally as you scale up some of these businesses obviously, you know, we will continue to invest in people, infrastructure and some of these things, but is there a threshold employee cost that you would not want to breach as a percentage of revenue?

**Hiren Gada:** Actually we are not looking at it from a percentage of revenue point of view in the immediate term. Our focus actually is because we have multiple businesses and activities so it actually has to be internally broken down at each business level, so it is difficult to have an overall percentage but each business by itself will have its own AOC and P&L based on which, what percentage of revenue it can justify on an employee cost.

**Hiral Desai:** And would we be sort of closer to the peak of employee spending or there is some more to go?

**Hiren Gada:** I think I would imagine that there is some more to go. I think if you ask me at least FY18-19 is a further year of building up on people strength because this is the biggest capacity creation which in fact would help be the launch pad for our ambition to grow 5x in five years.

**Hiral Desai:** Cool, cool. Thanks a ton for it. All the best.

**Hiren Gada:** Yeah. Thank you.

**Moderator:** Thank you, sir. Participants are kindly requested to restrict with two questions in the initial round. The next question comes from Ms. Shikha Mehta from Equity Capital. Please go ahead.

**Shikha Mehta:** Hello?



**Hiren Gada:** Yeah.

**Shikha Mehta:** Hello?

**Hiren Gada:** Yes.

**Shikha Mehta:** Sir, actually I had two questions. I just wanted some sort of guidance on our streaming platform that we have spoken about. Is that possible when it will be launching by and the cost structure, etc., of the same?

**Hiren Gada:** So basically as we discussed in the previous question also there are several B2B, B2C opportunities that we are pursuing and having our own streaming capability is very integral and important part of it if we have to integrate on many current platforms in our different and larger role and what we are currently doing and really that's what we are building out for and there is a team that is working on it and a set development that is happening. There will be a certain B2C aspect around it but the core thought process over that is much more B2B, B2C. And in terms of CAPEX or expenses, fundamentally we don't anticipate any content investment because it could be actually sweating the existing assets and libraries more. The overall technology expense in terms of CAPEX is limited because there would be a lot of variable use based or revenue linked expenses and the whole idea is that how we can restrict the upfront investment and based on the performance and success of that the other costs are linked to the actual usage and consumption and revenue.

**Shikha Mehta:** Right. Sir, what would your gross debt status be?

**Hiren Gada:** Sorry?

**Shikha Mehta:** Gross debt, what would the gross debt status be?

**Hiren Gada:** The gross debt as on June?

**Shikha Mehta:** Right.

**Hiren Gada:** The gross debt as on June is 220 crores.

**Shikha Mehta:** Sorry?

**Hiren Gada:** The total debt as on June 2018 is 220 crores.

**Shikha Mehta:** Alright. Thank you. And, sir, we were talking about 5x in five years so at that point could you give a breakup between digital and traditional media?

**Hiren Gada:** So directionally I would imagine that digital should be more than 50% of the total. The exact breakup is too early obviously to think of but given the way things are going and the way digital is growing I think it should be more than 50% of the total.

**Shikha Mehta:** Okay, sir. Thank you.

**Moderator:** Thank you, ma'am. The next question comes from Mr. Sarvesh Gupta from Maximal Capital. Please go ahead, sir.

**Sarvesh Gupta:** Hi, Hiren.

**Hiren Gada:** Hi.

**Sarvesh Gupta:** Hiren, two-three things. One on this question which was asked previously also, so our stand-alone revenue growth which consists of bulk of our business, outside of that I think we have the flight business and the international business, so there the growth is just 11%, which is similar to what we had in demonetization year, otherwise we have never seen such kind of a slow growth rate in the stand-alone business, so what has contributed to it because our traditional business is mostly into stand-alone and that itself has grown at 12%.

**Hiren Gada:** No, no, in fact the entire bulk of the subsidiary business which goes into consolidation is in the traditional business, not digital.

**Sarvesh Gupta:** Okay. So what has, I mean, this 11%, where have we kind of slowed down this quarter?

**Hiren Gada:** No, actually it is a misnomer that it has slowed down because very clearly some content which was being built out in some of the subsidiaries and that content has gotten monetized to that extent during this quarter and it is part of the overall content offering, so in that sense actually, I mean, I have no worry or doubt on that front at all.

**Sarvesh Gupta:** Okay. And the other way to look into this is that last two years on all our subsidiaries we did 11 crore and then 13 crore and this quarter we have done 10 crores, so what is the sort of guidance for the subsidiary...

**Hiren Gada:** Yeah, as I said earlier also in terms of subsidiaries there are two – right now in terms of more contributing subsidiaries there are two businesses, one of them is the airline business, which is a more steady state kind of a business with a certain monthly billing and revenue generating that it is doing and the other is the where we built a certain content and that investment had happened last year, in fact more than a year actually, we in fact also had subsidiary losses at that time and it was discussed with analysts at that time because that was the investment phase, so there was one or two one-time deals that that content had generated. So that content has a certain lumpiness to the revenue.

**Sarvesh Gupta:** Okay. Okay. But this if it falls in the subsequent quarters then we will have to kind of spruce up the growth rate in our stand-alone business.

**Hiren Gada:** No, no, which is what I was saying that that content is also a part of my overall offering to the customer, so it has not got any overall bearing on the business mix or business outlook or condition.

**Sarvesh Gupta:** Understood. And, secondly, our other expenses has fallen, like, almost by 50% from last quarter. So, I mean is there any lumpiness there or

because it is even lower on a YoY basis by almost 20 odd percent. So what has contributed to the other expenses going down?

**Hiren Gada:** To an extent last quarter definitely was – there were a few, you know, one-time kind of expenses in the last quarter of previous year definitely and overall I think there would be some amount of seasonality, I mean on a year on year basis other expenses would grow marginally, probably tracking inflation or thereabout.

**Sarvesh Gupta:** Okay. But this time we are down on a YoY basis also.

**Hiren Gada:** Yeah, yeah.

**Sarvesh Gupta:** Okay. And my final question is regarding your tax rate. Now, they have been steadily going up, so what is the steady state tax rate, because this quarter it is 38% and, you know, last year it was 34%, FY17 it was 36%, so what is the tax rate on consolidated that we should assume?

**Hiren Gada:** Consolidated, of course finally it depends on subsidiary performance because loss of that will give it a feel of a higher tax rate because if there is a loss in some of the subsidiary, but the target for consolidated would be in the 34%-35% bracket.

**Sarvesh Gupta:** Understood, understood. Thanks, Hiren, and all the best for the coming quarter.

**Hiren Gada:** Thank you.

**Moderator:** Thank you, sir. The next question comes from Mr. Ronak Gupta, an individual investor. Please go ahead, sir.

**Hiren Gada:** Hello?

**Ronak Gupta:** Hello? Sir, thank you for taking my question. Sir, my first question is related to in digital media we have growth around 36.5% on YoY basis, how do you see the growth rate number sir number? Is it, like, similarly or any drop-down will happen in digital media, sir?

**Hiren Gada:** Overall, as we discussed earlier, the industry projection for digital media is now at this point between 20 and 25% and our target and effort has been to grow at about five percentage point higher than the industry in general.

**Ronak Gupta:** Sir, my second question is related to debt, how much debt would you repay in FY19, sir, because the short-term borrowing is too high, sir, what kind of interest we are paying in FY19, how much debt would we repay?

**Hiren Gada:** So, again, as I said earlier, the target is to have a lower debt this year which is why I even earlier said that the net investment on the content should be lower, I mean it should be negative. Now, at this point there are many variables and moving parts over here, but the target is definitely to have a reasonable debt repayment by the end of the year.

**Ronak Gupta:** Sir, what rate of interest we borrow money from market, at what rate of interest?

**Hiren Gada:** So the banking limits are all, in fact all of them, bulk of the borrowings are banking limits, so blended rate would be in the range of 10.5% to 11%.

**Ronak Gupta:** Okay. Sir, how do you see the traditional media growth because this quarter YoY we're just 12.5% growth? So this number is continuously growing or any significant reduction will happen this year?

**Hiren Gada:** No, traditional media, again, industry projection is about 9%-10% kind of a growth rate at an industrial level because ad spend continues to grow and there is a certain trajectory at which the subscription of pay revenue is also growing, so I think blended of that I think the industry projection is in that range and our target over there has been 100 to 200 basis points higher than the industry growth.

**Ronak Gupta:** Thank you, sir. Sir, are we doing any CAPEX in FY19, any CAPEX plan for that?

**Hiren Gada:** Content is what we discussed, but net of monetization, the target is it should be negative. Apart from that there isn't any significant CAPEX. At the most there may be some amount of office space expansion due to more recruitment, team growth. So some amount of CAPEX for the, you know, for our B2B, B2C platform that we are working on.

**Ronak Gupta:** Sir, what is our maintenance CAPEX?

**Hiren Gada:** I can't understand the question, sorry.

**Ronak Gupta:** Okay, sir. Thank you for taking my questions.

**Hiren Gada:** Yeah.

**Moderator:** Thank you, sir.

**Hiren Gada:** The next question comes from Mr. Ashwin Damani, an individual investor.

**Ashwin Damani:** Thank you for taking the question, sir. So my question was that normally the streaming would be done by the new millennial generation and our library might not be as appealing enough to them, so what are the steps that we might be taking to change that?

**Hiren Gada:** So two assumptions were there and I would like to discuss both of them. Firstly, that streaming would be done by the new millennial generation itself is not correct because if we look at the projections overall we are growing from 250 million, it is headed to 500 million. Now, considering the fact that at least 40% of the population or at least 30% of the population is below 12 years of age. So the addressable population as you move from 250 million to 500 and then to 700 odd million virtually all major age groups will get covered over there. So I don't see that as a challenge at all. Secondly, it is the same very content that we are talking of that is

currently being kind of monetized or being seen on YouTube and where we on the same content are among the top 10 most viewed channel partners of YouTube in India doing a daily viewership of 2.5 crore views every day, which is 25 million views a day. Our retro Bollywood music channel which is Filmi Gaane which doesn't have a single song post 2000, so everything pre 2000, is among the top 15 most subscribed channels in the country with about 12 million subscribers and generating more than 250 million monthly views and 60 million country users. So, you know, these are stats which all the existing library or the content is being delivered with today's user base. So I don't see that as a challenge at all.

**Ashwin Damani:** But still any plans to change or add certain new titles to the inventory because it has been gradually seen that every other competitors like Rajshree or an Ultra or an Eagle are also expanding furiously on YouTube, maybe seeing the success of our company, so unless we have certain things in our inventory we might just be another player in the industry.

**Hiren Gada:** So, refreshing content is something that is a continuous activity, I mean if you see what we have done in the last about three to five years, so today the kind of content that we put together – okay let's first break it out into two parts. New released big budget, pre release risk is something that we are definitely staying away and will stay away from...

**Ashwin Damani:** Which is a good call.

**Hiren Gada:** Where we come in is post completion of the first five to seven year, first cycle of the film, right? Now, what is the kind of content that we have put together over there today if you think of, I mean I can put few names which will give you an idea of what is the flavor of the library beyond which I guess it is only speculation or more than speculation it is only a conjecture or judgment call, so I'll just take few names, like, what we have with us. So, Ajab Prem Ki Ghazab Kahani, Jab We Met, Golmaal, Golmaal Returns, Welcome, Phir Hera Pheri, Mujhse Shaadi Karogi, Hunterrr and so on, I mean there are many more films we can...

**Ashwin Damani:** Actually the next question which I wanted was something on this line itself. So can we not have a break-up of the inventory, at least the top larger values whatever, I am not sure how possible it would be, so today our inventory value, which sits on our balance sheet is huge and we don't know the break-up of that, is it possible anyhow to have this published in the annual report or some other format?

**Hiren Gada:** The problem is that it is a very dynamic inventory because every time there is an addition and there is a subtraction from there, so actually to the (not sure) of that is relatively much lower. So it is very difficult, therefore, to give that kind of break-up but what we have been trying to do is give a directional sense that what is the kind of title break-up and one thing I can easily say is that today so without actually having that kind of content you can't generate that level of business. In fact, most of the names that you took have actually very, very deep catalogue content, of the other participant names that you took, they have in fact not refreshed their library, but we have gone ahead and refreshed our library significant in the last – and it is a continuous process. It is not just last three to five years. It is a continuous process for us.

**Ashwin Damani:** Sir, one last question on the inventory itself. How do we value our inventory? So when we purchase it we purchase it at 100 rupees something, so do we continue to value it at 100 or do we change the value every year or revisit the value?

**Hiren Gada:** No. So it is fundamentally valued at purchase or market price, whichever is lower and within that how we charge off to the P&L is based on consumption and there is a – if you go through our investor presentation it is there at the end of the presentation, the whole break-up of how we charge it to the P&L and I am happy to take it offline with you.

**Ashwin Damani:** Sure. Thank you, sir. Thank you for taking the questions.

**Hiren Gada:** Yeah.

**Moderator:** Thank you, sir. The next question comes from Mr. Raunak Jain from Vibrant Securities. Please go ahead.

**Raunak Jain:** Hi, Hiren. This is Raunak from Vibrant. My question is on the debt side we have seen, as you guided that there is a fall in interest expense, so congratulations for that. So can you give some color on – can we expect the same thing this year, further reduction in debt?

**Hiren Gada:** Yeah, that is the expectation and that's what we are working towards. As I said that the target is that all our investment made on content should get funded out of internal accruals and there should be some additional cash flow generated to be able to repay of, however, I mean, at this point I am not able to give a better sense on the number but definitely we are working hard towards that.

**Raunak Jain:** So at least can we assume that this run rate of six crore interest expense every quarter, is it fair that it will at least remain or not increase from that level?

**Hiren Gada:** Yeah, that should be, so at an annual level, yes, there may be some quarterly fluctuations based on deals and cash flow, but I think at an annual level definitely that should be the thing.

**Raunak Jain:** Got it. And could you give me the inventory figures, 530 crores as of March 2018, is it possible to give the number as of June 2018?

**Hiren Gada:** It is 552 crores.

**Raunak Jain:** 552?

**Hiren Gada:** Yeah.

**Raunak Jain:** And the receivables, if you can? It was 141 in March 2018.

**Hiren Gada:** Yeah, so receivables are at 152.

**Raunak Jain:** 152?



**Hiren Gada:** Yeah.

**Raunak Jain:** Okay. Also in terms of for the full year I think do you mind giving some guidance to the margins because I think when you grow 15-20% of course our margins should expand, but at the same time we are investing in the people and that expense also has scaled up with investment in people, so do you think that would offset the benefit of revenue growth or – so what kind of margins can we assume basically with these two things happening in tandem? Is 30% EBITDA margin doable for the full year?

**Hiren Gada:** So we have been talking about the margin for last about two to three quarters and my constant point is that at this point I am not expecting margins to expand further at this point because of both these combinations. One is where we are investing for building the team and some other, I mean the overall next level of business, whatever we are investing and second is there is definitely a certain cost push on the content side also. So a combination of both of that and the idea is if we could maintain the margin within 200 to 300 basis point trajectory, we will be very happy.

Of course, our effort will be to make it as high as possible and optimize as much as we can, but given the stated fact that we are looking at both these aspects we will be happy if we are able to manage it within this range which I just said.

**Raunak Jain:** Okay. One final question if I can ask. On the DTH business you mentioned that we have done much better than what we had planned for. In terms of quantum of course you cannot give us the number percentage wise, but can you give additionally what is the kind of growth which we are experiencing in that business, percentage growth on a quarter on quarter, year on year basis, what is generated there?

**Hiren Gada:** Unfortunately I am not in a position to give that. All I would repeat, as I said earlier also is that overall there is a certain amount of traction which is there, certain amount of growth is also there, but....beyond scalability due to consumer propensity to pay is always going to be the question.

**Raunak Jain:** Okay. Okay. And your growth plan, is there any provision for inorganic sort of strategy, 5x in five years, is there any provision of that?

**Hiren Gada:** As of now, I mean, all I can say is that all options are open. I mean I am not averse to something organic, if it is helping me in my overall strategy.

**Raunak Jain:** Okay. Thank you. All the best.

**Hiren Gada:** Yeah.

**Moderator:** Thank you, sir. Next question comes from Ms. Neeta Khilnani from B&K Securities. Please go ahead, ma'am.

**Neeta Khilnani:** Yes. Hi, sir. Sir, we have seen some inventory increase in this quarter and from what I have understood in the call is are you still maintaining that your annual inventory figure would see a reduction from the FY18 level?

**Hiren Gada:** Yeah, yeah, very much. We expect it so – okay, sorry. I'll put it this way. Inventory, even last year if you see while we reduced debt inventory actually did go up marginally. So it is not just – it is difficult right now for me to guide whether inventory would go down or it will go marginally up. What I maintain is that the target that we are working for is that all the capital needed for the additional investment would get generated out of internal accrual.

**Neeta Khilnani:** Okay. Understood, sir. And last quarter you mentioned that you've seen some pick up in terms of ads on YouTube as the issue is getting resolved, so by when do you think we can see YouTube coming full stream as it was before?

**Hiren Gada:** So full stream or not I don't know but I would think now we are probably about two quarters away from YouTube actually reaching a respectable growth because definitely we have seen better fill rates in this quarter.

**Neeta Khilnani:** Okay. So the 36-37% odd growth that we are seeing post the YouTube like you are saying after two quarters, can it move the needle is what I am trying to understand?

**Hiren Gada:** I wouldn't bet on that because given where the industry is being projected, some other platform may be, kind of compensating the growth in a negative way. So I would not at this point bet significantly for that to move the needle on the overall growth.

**Neeta Khilnani:** Okay. Okay. Understood, sir. Thank you.

**Hiren Gada:** Yeah.

**Moderator:** Thank you, ma'am. The next question comes from Mr. Nimish from Kitara Capital. Please go ahead.

**Nimish:** Hi, Hiren, Nimish again. This is a follow-up on my question on traditional media. I know you have explained it to another caller, but just wanted to clarify, so the difference of revenue of consol and stand-alone of 10 crore, which is part of traditional media and that has come from subsidiaries from airline business and all of that, so if you deduct the 10 crores then that means we have not grown our traditional media?

**Hiren Gada:** No, that's not the correct way to look at it. That's what I just said. Basically that content which we put together is part of our offering to our traditional media customers, so there a separate investment happened, and that content has been monetized. It is just that that content came out of a subsidiary, that's all. It has no bearing on the overall business condition or my position in that.

**Nimish:** Okay. Fine. Thank you so much.

**Hiren Gada:** Yeah.

**Moderator:** Thank you, sir. The next question comes from Mr. Ronak Gupta, an individual investor.

**Ronak Gupta:** Hello?

**Hiren Gada:** Yeah.

**Ronak Gupta:** Just a follow-up question, sir. Sir, how do you see the competition between Amazon Prime and Netflix? How do you see Shemaroo given strategy to plan for this competition between Amazon Prime and Netflix?

**Hiren Gada:** In fact, we are rather working with both of them in different ways and all of them are our partners, so I wouldn't look at them as competitors and I don't think we have the wherewithal actually to even compete with them. So in fact rather we are partnering and working with them in different ways. We have our own strength on many of the categories, for example, like we spoke about devotional or those kinds of things and those are where we are working on creating our own strength and connect with the consumers.

**Ronak Gupta:** So the FY19Q1 margins to near about 31.5% so how do you see the overall FY19, what sort of margins we are looking?

**Hiren Gada:** Sir I just replied to this question that we are hoping that we should be able to maintain it in a roughly 300 odd basis point trajectory. I don't see the margin going up at this point in time, but I don't see it falling off either. So there is overall inherent – due to the business growth there is a certain margin or operating leverage available but it is getting compensated by a combination of investment for future growth both in terms of people and many other aspects as well as it is getting compensated by certain cost push on the content side.

**Ronak Gupta:** Okay, sir. Okay. Thank you so much.

**Hiren Gada:** Yeah.

**Moderator:** Thank you, sir. That will be the last question for the day. Now, I hand over the floor to the management team of Shemaroo Entertainment for closing comments. Over to you, sir.

**Hiren Gada:** Thank you very much and thanks everyone for participating in our call for Q1FY19. I am looking forward to going with the new brand identity that we have just unveiled a few weeks back and we look forward to live up to our tag line which we have also taken on which is "India Khush Hua". Thank you.

**Moderator:** Thank you, sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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**Note:**

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.