



“Shemaroo Entertainment Limited
Q2 FY2019 Earnings Conference Call”

October 31, 2018



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Moderator: Ladies and gentlemen, good day and welcome to Shemaroo Entertainment Limited Q2 FY2019 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Rohit Dokania from IDFC Securities. Thank you and over to you.

Rohit Dokania: Thank you Sir. Good afternoon everyone and welcome to the Q2 FY2019 Results Conference Call of Shemaroo Entertainment Limited. I would like to thank the management for giving IDFC Securities an opportunity to host this call. The management team is today represented by Mr. Hiren Gada, Chief Executive Officer, Ms. Kranti Gada, Chief Operating Officer, Mr. Jai Maroo, Director and other senior colleagues. We will start with the short commentary from the management and then move into the Q&A. Thank you everyone and over to you Sir!

Hiren Gada: Thanks Rohit. Good afternoon everyone and welcome to the Shemaroo Entertainment Limited Q2 FY2019 earnings call and thanks everyone for taking the time out and stopping by to interact with us. I am very happy to announce the progress for Q2 FY2019. I will quickly run the numbers on Q2 and then H1 for FY2019, so the total revenue is up by 21.3% on a consolidated. So I will be discussing the consolidated numbers, total revenue is up by 21.3% to Rs.163 Crores. EBITDA is up by 17.4% on a Y-o-Y basis to Rs.42.6 Crores, net profit is up 23% to Rs.23 Crores. For H1 FY2019 total revenue is up 20% to Rs.286 Crores, EBITDA is up 15.9% to Rs.81.8 Crores and net profit is up 22.8% to Rs.42.5 Crores.

The breakup between digital and traditional media, so we did Rs.45.6 Crores digital and Rs.117.7 Crores traditional media in the total of Rs.163 Crores which is a growth of 33.3% for the quarter in digital media and 17.5% traditional media. Overall I would say that we have seen a good deal flow and growth in traditional media which has helped the numbers overall so in terms of traditional media it has been one of the better quarters. New Media as indicated earlier the growth had been in that 30% to 35% range. In terms of other operational highlights we have acquired video music right for the NH studioz catalogue. Overall on YouTube we have crossed many milestones including 7 billion cumulative views on our number one channel FilmiGaane more than 10 million subscribers on Shemaroo our flagship channel and we have crossed one million subscribers and the Shemaroo Gujarati channel. In addition to that on the DTH front, we have launched a thriller service on Videocon and Dish together. We have launched a Bhojpuri service on Videocon and Dish and on Tata Sky and third is we extended our Marathi language service to Airtel DTH platform. These are some of the key operational highlights for this quarter and happy to interact with you all and answer any questions that you all may have. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

- Kashyap Jhaveri:** Congratulations for a great set of numbers. Three questions. First one, can you give me the gross and net inventory addition for H1 as well as Q2?
- Hiren Gada:** H1 I can give you is... the net number on H1 just one minute, I will give you.
- Kashyap Jhaveri:** Net number actually I would have, because there is a change in inventory right, I want gross number.
- Hiren Gada:** Gross number separately I can give, right now I do not have it handy with me.
- Kashyap Jhaveri:** If you can get that number during the conference call for H1 as well as Q2 or may be Q1 and Q2 either ways it is okay. Second question is on our operating cash flows, would it be right to deduce that total operating cash flow spends during the quarter would have been about Rs.45 Crores, Rs.50 Crores odd?
- Hiren Gada:** Slightly lesser than that because if you look at the overall parameters, debt has marginally come down, so that is definitely part of the operating cash flow, but against that there is a certain investment in the inventory, so net-net it could be probably in the range of around Rs.20 Crores to Rs.25 Crores.
- Kashyap Jhaveri:** Okay and third question is on the seasonality in the numbers, if I look at your margins on quarter basis, September and December usually have lower margins, but March end, you usually have higher margin, so what would you attribute to that? and I mean I can see in the gross margin number also which is you are normally revenue minus any let us say inventory amortization that you do?
- Hiren Gada:** It is a combination of the kind of revenue cycle that we have shared earlier that there are certain cyclicalities on the revenue side which is for example even on the digital media, the ad spend on various platforms has cyclicalities or certain other consumption pattern has some cyclicalities. Similarly on traditional media also there is some cyclicalities that we are seeing. Beyond a point it is more ROI and IRR driven so while it looks correlated or in that pattern, but we do not look at it as any strong pattern in those lines.
- Kashyap Jhaveri:** Sure and during the conference call if you can get those numbers. Thank you very much.
- Hiren Gada:** I will try, but if it is not possible because there are a couple of other things happening with our team right now, so if it is not possible we will separately provide it do not worry.
- Kashyap Jhaveri:** Sure Sir. Thank you very much. I have further questions that I will get back in the line.
- Moderator:** Thank you. The next question is from the line of Karan Taurani from Elara Capital. Please go ahead.

Karan Taurani: Thanks for taking my question. My first question is pertaining to YouTube on the digital revenue piece, what time of recovery have you seen there I think two, three quarters back you had pointed out some improvement over there, is it still the same of there is still improvement on that front?

Hiren Gada: YouTube basically I would say two or three things, the CPM continue to drop even now literally on a month-on-month basis, the CPMs are lower. The fill rates in fact also have kind of been a bit stagnant. So thankfully they have not really dropped a lot. They have been on the lower trending, but not falling off kind of a thing. What else happens for us is that the views growth has been so phenomenal and if you look at the gross that we have shared also, last quarter we had reported more than 750 million views for June. September, we are already at 900 million plus, so even on such a high base, so we now literally are doing 30 million plus views a day and on a year-on-year basis also if you kind of look at it we are virtually at nearly double kind of a thing. So if that additional traction that the content has achieved that is in a way driving revenue, so yes revenue has grown as far as YouTube is concerned, but it has grown far lesser than the views growth substantially lesser because fundamentally the CPM have trended downwards continuously and they still continue to be downward trended.

Karan Taurani: Great and which other key drivers in the digital media segment apart from YouTube drive you can see, it is the major driver for the high sequential growth which you have reported today?

Hiren Gada: In a way if you look at it fundamentally all the digital platforms today have post the introduction of 4G have seen a phenomenal traction, so the consumption of video per se has gone up significantly and therefore the demand for content has gone up, so the syndication part is something that definitely has been growing, but it is difficult for me to point out a single platform, because the entire ecosystem has grown a lot.

Karan Taurani: Just one last question on this if I can just throw. On the TV part traditional medium, do you see any kind of pressures because of digital platform, because people are now consuming content on various POD platform, so where the TV consumption has dropped because of that?

Hiren Gada: As of now if we see BARC data, there is actually growth in consumption on television in the last if you see over the last two years actually the television consumption has grown in terms of both viewership and time spent, so that has kind of led to a continuous growth in the ad spend also, because the viewership I mean numbers and time spent both continue to grow, so there is in fact at this point absolutely no impact of the digital media on television.

Karan Taurani: So, is this is the business of the growth in viewership as in the case of movie channels only or is it also will generally viewership because I think we channelize something which will be more relevant over here.

Hiren Gada: This is for both whether you look at movie category per se or television overall as a segment of the media entertainment industry.

- Karan Taurani:** Got it. Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Vikas Kasturi an Individual Investor. Please go ahead.
- Vikas Kasturi:** Between 2014 and 2017, your inventory went up from about Rs.200 Crores to about Rs.500 Crores, so roughly about Rs.100 Crores a year whereas from 2017 to 2018, it is only about Rs.29 Crores and between in FY2019 it is about Rs.32 Crores right of additional inventory.
- Hiren Gada:** As of now, yes.
- Vikas Kasturi:** So my question is like given that you have said that you want to grow 5x in five years, so is this kind of run rate in inventory acquisition enough for you to fuel that growth?
- Hiren Gada:** There are two or three points. Fundamentally if you look at this case of which you are describing of 2014 to 2017, this four year was as stated investment phase for us and it was a library build up phase which was in preparation for the whole digital wave that we were anticipating. So to that extent this full inventory or the library addition if I have to put it has been in a way planned kind of a thing. What we now have is a strategically large and varied library base which is actually I would say a good critical March to drive forward the growth and to clarify it is not that we have stopped investing or stopped buying. This is only the incremental money that we are talking of. So in any given year there is a churn happening I mean we are consuming content and we are replenishing our acquiring fresh content, so there is a certain amount of buying happening. What we have done in last 12 to 18 months around roughly you can say 12 odd months is that the pace of library addition or library buildup we have brought it to a more normalized kind of a scenario, so there is absolutely no doubt that acquisition is happening on a daily basis or on a regular basis, but it is just that the pace of acquisition has been normalized now to a point where we are able to fund it through the internal accruals that we are generating from the monetization.
- Now coming to the whole growth question. As I said that the library and the cash flow generating out of this library, we believe is strong enough to drive us through more strongly because there is a certain advantages that the size and scale of the library bring in, in terms of monetization, in terms of the kind of partnerships and scale that we are able to build on many, many platforms as well as many relationships and that is really what is helping us and driving the plan forward. So at this point, I would say in terms of library we are quite adequately provided and the cash flow that is generating further is good enough to help drive the additional requirement that is there on an annual basis.
- Vikas Kasturi:** Okay, thank you Hiren. I had another question. So when I was going through the earlier concall statements right, so I came across this where the management has said that there is significant operating leverage in the digital media line up business right, so for example I understand that in YouTube there can be operating leverage because there is no gap on the number of views that

can take place, but on a platform like let us say Hotstar, so what kind of operating leverage do you see there?

Hiren Gada: It is not one platform, the point what we were making even at that time and we stand even now is that essentially there is a larger digital video consuming base okay, whether they consume on YouTube, whether they consume on Hotstar or any other platform, for me two or three things happen. One is there are more number of outlets or platform that I can serve a monetize in the content through and serve to a larger base, so it is a same content or library which is available on more platforms and these are the larger consumer base which in effect will throw higher revenue, but the core cost are kind of locked in our relatively lesser or in many cases one time in nature.

Vikas Kasturi: Okay, got it thank you and one last question, Hiren.

Moderator: May we request you please return to the queue for your followup question, please.

Vikas Kasturi: Sure, I will do that. Thank you.

Moderator: Thank you very much. Next question is from the line of Dipankar Sati from Magadh Capital. Please go ahead.

Dipankar Sati: Thank you for the opportunity. I have a question on your EBITDA margins, it is lowest in quite sometime. So can you tell me what happen there I mean like why 6.1% for?

Hiren Gada: This is something that we have been discussing for the last at least two to three calls also... essentially the question has always been on margins, there have been many questions, but the margin question, the stated position is exactly what we have said and it does not change is that the margin is maintained in a range. At this point we probably are nearer the lower end of that range, it does not mean that we cannot go below that, but more importantly two things I would say. One is the IRR focus for us is more important than margin because margin is a derivative in the IRR, it is one variable in the IRR calculation and secondly given the overall expansion plan in overall investment plan that we have in many other forays which will help us actual rate in the future revenues and business scale. We have consciously taken a call that certain additional expenses or investment we would incur those and in a way use the relative operating leverage that has been available to us to actually create those opportunities.

Dipankar Sati: Thank you and I have just one more question. Are we manufacturing anything yet I mean CDs and all that, because we...

Hiren Gada: We never manufactured CDs, we have always outsourced. Earlier also when we used to manufacture CDs I mean when we used to distribute CDs and DVDs, because always outsource the manufacturing part I mean we still distribute VCDs and DVDs.

- Dipankar Sati:** Because we have like some Rs. 30, 33 Crores on plant and machinery, can you tell me what we have that?
- Hiren Gada:** Plant and machinery is actually that has got nothing to do with manufacturing, it is more processing equipment for content, so digitization, restoration, converting from analogue to digital, editing and all of that.
- Dipankar Sati:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Neeta Khilnani from Batlivala and Karani Securities. Please go ahead.
- Neeta Khilnani:** Thank you for the opportunity. Sir our traditional media growth has been very strong this quarter and that to on a decent base, so just wanted to understand is there has been any bunching of deals this quarter and how should we look at growth in the second half?
- Hiren Gada:** Overall the way we looked at it is traditional media we expect to be on low double digit on an annual basis, so to some extent there definitely would be some bunching of deals in this some I mean not too much, but the idea is to maintain a low double digit growth because the industry is growing at between 8% and 9% and our target is to grow at 200% above the industry growth rate.
- Neeta Khilnani:** Okay Sir. My second question is pertains to the employee expenses and other expenses, so employee expenses are up by about 25% Y-on-Y and other expenses are double, are these expenses towards new initiatives that we were speaking of earlier in terms of a new platform and should we take them as a base or is there are some one time component in these cost?
- Hiren Gada:** Employee definitely is a kind of base thing, because we have been adding to the team and we have been making a few announcements in the last year or so which even we have shared on calls earlier that kind of people that have joined, so there is definitely employee, so employee I would consider that as the base. On the other expenses part, yes to an extent there is a small component of the platform building part, but more in this particular quarter we had our whole brand identity refresh related expenses which were there, so those I would say are more one time in nature. Having said that considering the fact that we are looking at few initiatives, there would be some expenses or the other that we would be looking at and we are not capitalizing any of these expenses. We are taking them directly into the P&L.
- Neeta Khilnani:** Okay Sir. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Priyanka Mehta an Individual Investor. Please go ahead.
- Priyanka Mehta:** My first question is in the devotional category side, when can we expect full fledged visibility of the app and also what revenue are we expecting in this, can you give a detail on this?



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Hiren Gada: We have operational app right now on the devotional category which is one in Hindu which is called Shemaroo Bhakti and one in Islamic called Shemaroo Ibaadat and all the services in terms of live darshan and many other things are all already available on that app, similarly on the Ibaadat app also all the content and many other services are available, so you could do for example on the Bhakti app you could do pooja, prasad, donation, mannat, all of that is operational and fully available. What we have been doing are – would do over a period of time, we will keep – making the app which are in terms of more content, more temples, more services etc, but at this point it is fully functional app. We have not yet launched an iOS version of that app and that target is mostly next quarter we would be rolling out the iOS. It is in development at this point in time.

Priyanka Mehta: Okay, alright. Any new services we have added right now or any new tie-ups to this?

Hiren Gada: We had done the Lalbaugcha Raja live during the Ganesh festival and we had also done the Durga pooja live from some different pandal during the Durga pooja festival and along with that we had introduced with Ganesh we had actually done with Lalbaugcha Raja we had done Mannat to Ganpati kind of thing and this was in fact offered across we had tied upon Vodafone and Idea also, so all these was available, the live darshan was available on multiple platforms like Reliance Jio, Vodafone, Idea, etc.

Priyanka Mehta: Okay and what kind of revenues are they expecting?

Hiren Gada: I am currently - we are not sharing the breakup, but whenever we will share, I will be able to give better visibility on the numbers, all I can say is that at this point this is a comparatively growing a smaller segment within the overall tie-up thing, but at the same time, it has been growing reasonably. So we have been focusing on building this up and the fact that we have strong position in this phase.

Priyanka Mehta: Okay, what kind of growth percentage are we expecting in a year?

Hiren Gada: Madam, it is difficult for me right now to quantify things, because the base is too small, so if I tell you that we grew at 50%, it really does not make too much sense.

Priyanka Mehta: Okay, alright. My next question is in this quarter traditional media, we have seen a good growth, so can you bifurcate in which traditional media are we getting a good growth?

Hiren Gada: Primarily television syndication is the main area where we have the growth.

Priyanka Mehta: Can you quantify how much?

Hiren Gada: Overall number has been quantified right. We have overall grown at 17.5%.

Priyanka Mehta: Alright.

- Moderator:** Thank you. The next question is from the line of Dhiraj Dave from Samvad Financial. Please go ahead.
- Dhiraj Dave:** Congratulations on a good set of numbers. Just a couple of things. What kind of inventory increase we are seeing, is it more of digital or is it like during the first half what kind of inventory addition we have?
- Hiren Gada:** Sorry, I am not able to understand the question.
- Dhiraj Dave:** When you have added inventory, is it more of digital rights which we have acquired or is it syndication which we have acquired, what we are purchasing now, is this everything different from what we have or something specifically?
- Hiren Gada:** Actually not really very different, one significant library that we have added is NH Studioz catalogue which we have spoken about, so primarily that is for the digital platform.
- Dhiraj Dave:** This is the movie or songs or what NH?
- Hiren Gada:** Song, music video rights.
- Dhiraj Dave:** Okay and the second point is on the investment subsidiary basically two related questions. When we see some Rs.4 Crores decline, Rs.4.17 Crores decline, if you compare noncurrent investment vis-à-vis March 2018, so what is the decline, can you just explain what exactly we sold something is it some financial investment or some equities has been sold?
- Hiren Gada:** No, we have not sold anything. It is possible that I am also just trying to recheck the numbers. So basically from Rs.6.69 Crores to Rs.6.52 Crores is what you are saying right?
- Dhiraj Dave:** No Sir, if I look at consolidated balance sheet and there is noncurrent financial investment, financial assets, so investment I am getting 35.45 on March 31, 2018, September 31 is 31.28. This is on page 7 on pdf file.
- Hiren Gada:** Okay one second.
- Dhiraj Dave:** This has come with results. **(inaudible) 33:18** in asset side?
- Hiren Gada:** Sorry.
- Dhiraj Dave:** In asset side subtitle standalone or consolidated whichever you may take, it is a little different. Currently these were taken from standalone, but even if I look at consolidated, yes it is not showing on consolidated.
- Hiren Gada:** That is why I was looking at consolidated.

- Dhiraj Dave:** What is the difference while you are getting this, something you merged or something?
- Hiren Gada:** No, I will have to recheck and come back to you, fundamentally we have not – there is no change in our investment position in any of the entities that we have, but there could be a possibility that there may be some loan given out to an investment subsidiary and that has been returned. So that may have gone in the form of partner capital in an LLP, so in which case from the book it shows as investment, but on repayment it kind of reduces the investment number, but I will have to reconfirm this later.
- Dhiraj Dave:** Fine, no worries. The last one is how we see effort from the subsidiary turnaround, so we are reduced loss vis-à-vis what we can cover but exactly where we are and when we see these all subsidiary in contributing positively to the group level? Any update on the subsidiary, how exactly it is.
- Hiren Gada:** Sure, basically the larger aspect on the subsidiary is one of them is on the airline content distribution business, so the airborne rights that we distribute, now over there basically what we have seen is that business has grown a lot and this year should be we are hoping that it should be at least turnaround year and that should be in a position to make profits from the next year, because the way the business has been performing I think that kind of visibility is there. Apart from that, you asked now the office is now the operational so the person has already started working and there are many – one is there are many deals in the pipeline and the other is as and when we have our own platform that will be one of the other distribution thing for that entity so that is still in a setup kind of a mode and these are the two main larger impact kind of subsidiaries, rest are relatively smaller.
- Dhiraj Dave:** Okay, that is all from my side. Wish you all the best. Thanks.
- Moderator:** Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** Congrats on a good set of numbers. This quarter we have seen this initiatives on the Bhojpuri and Marati side as well as thriller side, so the question is, is it something very new that you are starting or that Bollywood services that we probably have on that Tatas platform, the way it is similar an extension of the similar service. If you can just expand your thoughts on you know the customary, new or is it something which is an extension of what you have been doing. Also I wanted to understand that context, your thought process about the way, we have been slicing and dicing our content earlier on gaane and comedy, now thriller and devotional is being added in that context and also through language earlier we had Gujarati apart from India and now Bhojpuri and Marati so how are we kind of looking at it adding contents and with this service, is it monetization of our service or it is more of also giving an opportunity to add on the content that we have something like that and also a broad sharing is if it is different from typical sell off

of content versus sharing with platform if there are some broad contrast of the deal that we do if you can some highlight on that please?

Hiren Gada: Kranti do you want to answer?

Kranti Gada: I will take a few of your question. First of all I would like to say that in the media space beyond the Bollywood Services, we have focused on regional language services in fact around two years, so Punjabi, Gujarati services were launched two years back and in the following year also we also launched Bhojpuri and then subsequently Marathi. So both the services, the Bhojpuri... so it is just about serving to the market and selling those media for the platform and in terms of thriller again we have tried to identify a genre which would be having mass appeal and it is currently missing on television in a structured or an established base and we try to fill that need gap for again the platform over there. I think you also asked the question about YouTube of our slicing and dicing of our content.

Hiren Gada: Because it is correlated that how we are.

Kranti Gada: I would say that idea that we follow, we are very close, we are very, very close with all the DTH platforms and wherever they see a need in terms of content gap, we try to fill in.

Amish Kanani: And if you can just share what are the typical sharing of this and whether we also add content when you know we do this kind of a question?

Hiren Gada: Typically what the consumer, so these are all paid by consumer, subscribed by the consumer and individually subscribed and whatever is the consumer price, so supposing it is Rs.30, Rs.50, first government share in terms of license fees they have shared and GST etc post that whatever remains we get anywhere between 40% to 50% of that typically and that changes from service to service and platform to platform and secondly it always a mix so to answer other question about the content, it is always a mix where given the vast library that we have there is normally a starting point that we have on most of the services which is reasonably good enough to give a critical mass, but over and above that typically you need to keep refreshing content on every service and that most of the time is acquired and that in a way close into the overall acquisition, strategy or revenue tie-up for the content acquisition that we overall do.

Amish Kanani: Okay and in that context is it possible one to quantify the payment that we have made to NH Studioz and also it is a video music right and if I go to their website, they have a quite bit of latest movie as well, so the question is price if you are sharing that and second is we have acquired a sub-right within the overall movie category, so that is second, is it something very different that we are experimenting and third is that is it new content versus old content?

Hiren Gada: No primarily what we have acquired is all mostly pre-2000 film release dates, so all films pre-2000 is what we have acquired. For the movies that they would have released, they themselves

would not be holding the music video right so, for us it is the library includes movies like Sholay and Shaan, etc. Number is for competitive reasons I would rather not discuss it so.

Amish Kanani: Okay and is it something that you have tried...this is just an extension on the same question that is why otherwise I have none otherwise.

Hiren Gada: In a way it is a different additional deal structure, but what it does is for our largest channel on YouTube FilmiGaane, it actually helps strengthen that content base tremendously because the synergy with the existing library that we have in terms of being able to create more better compilations as well as larger offering for the viewer of that FilmiGaane, it is something that we are hoping to do with that.

Amish Kanani: Okay, thanks a lot and all the best.

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

Pragya Vishwakarma: Good evening Sir. Firstly can you please share some thoughts on how are these contract structured for Amazon and alikes in terms of their content acquisition, are these long-term contracts if you can give some idea on that?

Hiren Gada: With us you are saying or in the market in general?

Pragya Vishwakarma: In general, how are these contract structured for Netflix, Amazon if you can just give some idea on that if you have?

Hiren Gada: Typically there are two types of content that most of the people are acquiring. One is what they commissioned as original like sacred games or those kind of contents. And what we have seen is those contracts in terms of the rights and period and everything are more or less structured like the broadcaster contracts are structured, which is the platform owns it in perpetuity and can monetise it across all platforms. These are by and large in most cases the kind of structures that are there. As far as films is concerned in most cases the period of rights is between three to seven years.

Pragya Vishwakarma: And so just asking from content perspective, so if these people are acquiring – rather investing heavily on content do you see it is as a risk or challenge for Shemaroo in terms of acquiring these contents post five years of their life?

Hiren Gada: By and large as of now we do not see any such challenge because by and large whatever content we have seen them really invest heavily or acquire is all new and latest films or recent films so to say, mostly if I have to say in cycle term it is in the first premier cycle of the film and those contracts are typically as I said three- to seven-year kind of contract, so post that the movies are

coming up are rights, it is too early, but it would ultimately come up for renewal. Our overall what we are seeing in terms of focus for them of big investment is on the new and latest films.

Pragya Vishwakarma: Why I asked this question is that if most of the contracts are structures for may be longer time period of more than five years, so do you think there can be challenge in terms of acquiring good content for us, so that was the reason I asked this question?

Hiren Gada: As of now I do not see any such challenges.

Pragya Vishwakarma: And just last one from my end, so what is the – if you can just give some color how do we do business with these people, with Amazon or Netflix if we are doing anything with them?

Hiren Gada: We will certainly do business with both of them and not just both of them with most of the other players in the eco system. The way so, normally if you see there are three ways of – three commercial models, one is the pure revenue share model something like YouTube and iTunes etc., which would be a pure revenue share model and the other end would be a pure fully fixed fee kind of a model where there is no upside or revenue sharing involved and then hybrid would be a minimum guarantee with some back end upside kind of a model, we operate in all the three depending on platform to platform and deal to deal, so many times if a platform is new in terms of age wise, it is just setting up and starting up then there is a different kind of deal structure, but if a platform has a large traction, for example, YouTube then you are okay to do a revenue sharing deal because it has a large consumer base already, so there are different ways that these deal is structured. I am not able to specifically talk about a single deal or a contract, but this is a general way in which the deals are structured.

Pragya Vishwakarma: Okay, so these people focus generally on obviously new film, so are we providing them the music content or what kind of content are we providing them?

Hiren Gada: No it is not that they do not buy older film, but the focus of their investment where they, so let us understand basically the one key aspect over here to understand is exclusivity, so the exclusive rights that there are really looking for is for the new film. On most library catalogue films they are okay to do non-exclusively because based on their own strategies the new and latest films is acquisition driver for them and that they want exclusively, so that the consumer is attracted to their platform. Having come there for the consumer if he sees some good library content it helps in the retention and the stickiness of the platform and engagement of the consumers, so that really what we are building or helping them in a way build, but there a nonexclusive deal is okay because you can – if the same movies on multiple platform it does not make a difference to the platform.

Pragya Vishwakarma: Okay, got it. Thank you. That is it from my end.

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

- Shikha Mehta:** Sir two questions, so over the last two years we have seen substantial inventory buildup, which should translate into topline growth, so in that scenario would we still see traditional media growing at a lower double digits or would it not be similar to what we have seen in this quarter?
- Hiren Gada:** Well, we will aim for more, but given the underlying industry growth our target will be to do better than the industry by about 200 basis points because it is a more mature industry, so in order to grow more beyond a point where the kind of investment etc., would be much more and at this point our focus on traditional media investment wise is not that high.
- Shikha Mehta:** Right, so our inventory levels would remain similar for the rest of the year or do we see substantial addition happening?
- Hiren Gada:** No as we have discussed earlier also the main investment phase for us is done with. We are kind of past that large investment or library build up phase, so in terms of building up the overall focus is that the additional capital needed in terms of growth should get – in terms of content should be funded from the cash flows from existing library and monetisation revenue stream.
- Shikha Mehta:** So that would translate into our debt figures and it remaining more or less constant or maybe even reduction?
- Hiren Gada:** So yes if we are able to generate more cash flow than we would see a reduction in the debt figure also and that is what we will ultimately be aiming directionally.
- Shikha Mehta:** So should we expect a deduction in the debt by March, not March?
- Hiren Gada:** Actually Madam it is too early right now to say because there are few initiatives, which are on the anvil, but the idea is that ultimately we want to have a strong balance sheet and lower debt, so whether it is this year or next year, let me put it in a different way that ultimately it is in a way payback time for the investment that has been made and to that extent there should be a lower trending of the debt.
- Shikha Mehta:** Alright Sir. Thank you.
- Moderator:** Thank you. Next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.
- Dhwanil Desai:** Good afternoon. My question is on the B2C side we started with devotional app that is one of our first initiatives, but I think you have indicated that there are few more in the pipeline, so if at all you can talk about that and related to the same question how are the business models and revenue models around this new initiatives panning out, I mean in terms of kind of breaking even and getting the requisite IRR of 18%, are we kind of aiming for that to happen in next couple of years from this new initiatives or it is a more of a proof of contract kind of thing?

Hiren Gada: So fundamentally ultimately yes the aim of every business initiative that we are doing would be to generate a certain IRR, which is 18% and above. In this case some of these initiatives also are looking to create a more sustainable and longer term consumer connect, which hopefully should translate into a more better and bigger cash flow in general; however, every business initiative that we typically are embarking on we have been working on group of concepts first, so that on a low cost, we kind of can test the basic concept and figure out whether this business has potential and should we be investing more in it and spending more time with it or not. In terms of – so the question on what other app that we are working also there is definitely we are working on a overall larger Shemaroo OTT app and the build out phase is currently on, so we hope to launch it in the January to March quarter and the focus over there also is to ultimately have a low fixed cost kind of a model with a certain variability of cost based on scaling up and utilization of the app and more importantly and this we have shared in the previous quarter also is that the focus over there would be a lot in terms of creating more B2B2C kind of presence through various platforms that offer – various video platforms basically.

Dhwanil Desai: Okay Thanks.

Moderator: Thank you. The next question is from the line of Hiral Desai from Anived PMS. Please go ahead.

Hiral Desai: Hi Hiren, firstly wanted to congratulate on the spectacular improvement that we have seen here on the balance sheet post demonetisation, I think the management really deserves a pat on the back and couple of question, what was the outcome of the board meeting talks about the amendment in the object clause, anything specific that is sort of outside of what you guys are currently doing. That is my first question and the other is specifically on the regional content, so off late you see a lot of Gujarati, Marathi movies doing well, so is the opportunity large enough can we play in the first cycle there and would the ROIs be better or worst as compared to the current Hindi portfolio? These are my two questions?

Hiren Gada: Yes sure. To answer your first question we saw that there were a few based on what we are currently doing, there are few things which were gaps on the objects, we kind of took a more comprehensive view, given the overall growth plans to include things which later on that we do not need to come back for a small thing either hold up the plans or go back again multiple times, that does not mean we may not come back to later also, but at this time, the idea was to just make the objects more rounded, so there is no I would not call it anything specific over here, but in many cases these are small incremental kind of a thing. So that is the first one, second one on the regional, so regional definitely in fact we have shared also in the past that there is a certain scope available in the first cycle itself, in fact in many cases regional second cycle the value has dipped significantly, so in that sense, we have been – a lot of the content that we have build up in regional is in the first cycle, however, even there the target is basically on a post release basis, so play release risk overall is something that we are averse and in general less than probably 10%, 20% of the acquisition that we would be doing would end up being on the pre release basis, in fact probably lesser also, but I am just conservatively telling you 10%, 20% and Marathi,

Gujarati I agree that, so Marathi already industry has scaled up to an extent and shown some very good traction. Gujarati has overall - the film industry of Gujarat has overall the last three years in a way revived with more useful and so-called multiplex-oriented content that is getting produced and we are participated a lot in – so we have added many of these films in our library also. As I said earlier also mostly on a post release basis, so movies like Gujjubhai the Great, Chhello Divas, etc., we have kind of added to our library, so definitely something that – regional overall is the point, but having said that Marathi, Gujarati is something that we have been working on.

Hiral Desai: Are the eventual ROIs better as compared to Hindi or not really?

Hiren Gada: At this point I would say they are somewhat on equal footing, but I think if these language segments scale up, at least the existing library will actually fetch far better return.

Hiral Desai: Okay. Thanks and all the best.

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

Sarvesh Gupta: Hi Hiren, so on this the new thing that we are trying to launch in Shemaroo OTT app as well as scaling up the B2C presence, can you elaborate a bit on the kind of talent hiring that we have done specifically for this project that could be really useful?

Hiren Gada: Yes sure, yes Sarvesh, so Kranti will talk.

Kranti Gada: So I want to say that on the OTT side we have the best talent available to work with us. As you would know you would have seen several announcements in the past maybe 18 months of various people joining us both on the business side as well as technical side. We have recruited from a lot of peer companies, platforms, our ex-operator, people from telecom operators, people who worked on similar platforms in other competitive environment, so on the tech side, on the business side as well as on the marketing and content side we have hired from the best peer organization and we are working on making it really robust platform from all aspects.

Hiren Gada: I would add that basically what we figured when we embarked on this was that this is something that internally we have limited capabilities on this, so it is best to work with people who have the experience of launching in an Indian environment or running in an Indian environment and to that extent we have beefed up the whole team for that.

Sarvesh Gupta: Just one sec, just one extension on the last question are we also planning to launch some sort of stock programme for new talent, which has come in?

Hiren Gada: Not at this point, it is a thought process that is on, but we have not yet crystalized anything as yet, but definitely at some point in time this will be more than called for we would be looking at it, but in the near future no.

- Sarvesh Gupta:** Thanks Sir.
- Moderator:** Thank you. Next question is from the line of Deepan Mehta from Elixir Equities. Please go ahead.
- Deepan Mehta:** Sir, this is Deepan Mehta here, congrats on good set of numbers. Can you inform us to what is the gross acquisition to the inventory in this quarter?
- Hiren Gada:** Yes, so this was a question earlier also someone has asked and I said that we will come back on this one specifically Mr. Deepan, I will ask our IR team to revert back to you on this number?
- Deepan Mehta:** Okay, second question is when this inventory was built over the past two, three decades or so at that point of time the cost of content was extremely cheap and attractive nobody had any visualization that – we would have a sort of digital age and this will become so valuable, but now there are a lot of awareness about the content cost and what its inherent value is, so in this type of scenario what is our strategy, are we still getting good deals, add reasonable valuations to add content or can you give us an overview of what is available in the market because end of the day the content and the freshness of the content which will drag your business model?
- Hiren Gada:** Sure, I would like to correct one understanding that a large part of this library actually was build up over the last five to seven years and not that back because at that point most of the deals were typically five, seven years kind of nature, perpetual rights acquisition relatively is a more recent activity we started around 2005, 2006 and the whole perpetual rights library has been build up post that. Now to answer your question on the price and the availability, the stage at which we enter is the films, fate is already known its connect with the consumer is already established, whatever way it may be and the first cycle of monetisation has passed. Now at this stage I fully agree with you that the producer is aware of the monetisation that the platform– or each platform or overall fact that there is digital, there is television and whatever other monetisation is happening, but ultimately the way the industry is structured considering the very highly fragmented nature of the industry, the need for an aggregator who can play volume on both the side and therefore maximise monetisation is in fact all the more important in a fragmented nature of industry, so to that extent availability of content pipeline is very strong, at any point in time we have multiple deals and discussions and multiple offers on content available. The question for us at the time of acquisition is two questions, one is my 18% IRR return criteria that we have and second is at that 18% IRR whatever price I am quoting am I the most competitive at that price, so if I am if the highest bidder and I am able to make 18% then the content is with me and till now we have not really faced any challenge in that sense and considering the organized way in which we have built the monetisation scaled it up on various platforms, I am hoping that we would have created a reasonably good competitive edge on the acquisition front even on a going forward basis.
- Deepan Mehta:** Alright. Thank you and all the best.

- Moderator:** Thank you. Next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.
- Kashyap Jhaveri:** Just one question on your receivable days. This probably is by far the lowest in terms of number of days at about 96 in this quarter. Now you used to highlight that on the old media there is about 180 days and New Media is anywhere between about 60 to 90 days. Now even if I average for the quarter the number should have been about 140, 150 kind of a number, but this is like third sort of half yearly balance sheet where we have seen that number still continuing to contract, so has the terms of trade changed in the traditional media now for good?
- Hiren Gada:** I would say, fortunate that some deals we have been able to negotiate with some better trade terms. The trade practice still does not change, so I would not say that this is still a trend, we managed to do some good deals on this. So I am happy we did that and obviously we will take that cash flow and work with it, but that still I would not say is a larger trend.
- Kashyap Jhaveri:** Okay. Thank you very much Sir.
- Moderator:** Thank you. Next question is from the line of Abhishek Pamecha from Vibrant Securities. Please go ahead.
- Lalaram Singh:** Hi this is Lalaram Singh from Vibrant. My question is first on the digital revenue side, can you give us a basic granular detail of the key buckets within digital, the contribution?
- Hiren Gada:** Yes, sure, so one is the Telco billing bucket, which is through various Telcos that we work with within India and abroad. Second is all the syndication bucket whether it is Netflix, Amazon or any of the other digital platforms and third is YouTube.
- Lalaram Singh:** And can you share us the growth within all these buckets, so this 33% how will this be among these three buckets?
- Hiren Gada:** Well what I can overall say is that the second bucket has been the fastest growing bucket, the first one has been to an extent slowing down and particularly in India slowed down, so we kind of added the international beat which helped us continue to maintain the growth and the third YouTube we discussed at length earlier during the call that there is a certain level of growth that it is not yet matching the kind of consumptions and huge growth that has been seen.
- Lalaram Singh:** Can we give us split between these three Telco, Syndication for OTT platforms and YouTube in terms of revenues?
- Hiren Gada:** So without going into more detail at a very broad level Telco is at roughly about 50% odd and the Syndication is 30% and YouTube would be at around 20%.

Lalaram Singh: Okay, also you said that there has been a strong demand for content with penetration of internet 4G and also smartphones all these happening at the same time, so are we seeing a, in terms of the content prices are they rising?

Hiren Gada: Yes definitely content prices are rising and because as we discussed even with the previous question that the producer is very well aware of Netflix being in India and Amazon being in India and digital being so big, etc., so the content prices are bound to go up because the monetisation is going up. For us, we come back to the same question that are we able to work on the 18% IRR in terms of the price?

Moderator: Thank you. Next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: Good evening, this is Ayaz, hi again and team. Thank you very much for taking my question, I will just be very quick. One is a point you made about CPM being down and the fill rates are down, so are these people not happy with the quality of these eyeballs, what is really happening by the delivery?

Hiren Gada: So let us look at in two different ways. One is pre-Jio we were so – I will explain it to you a little differently pre-Jio we were doing roughly little more than 4 million daily views, now that has gone up to 30 million daily views in exactly two years and assuming that I am performing equally with the platform, so if the platform has also grown by 6x, 7x, what it means is by that here number is a fact that the inventory has gone up by 6x or 7x than what was that we there two years back and now the budgets of advertisers obviously have not gone up anywhere near that, that budget impact we probably to an extent we have seen in this last three, four months, but still it is very marginal, it is probably much more linear, it is more arithmetic compared to the views growth which has been geometric, if I have to put it. So it is not more than probably 25%, 30% kind of a thing. Now if the spend is not going to go up, we have the same spend, but it is at 7x inventory, so it will have an impact on a combination of the rate as well as the fill rate both.

Ayaz Motiwala: Right, so fill rate is obviously a function of the budget, but the effective rate comes down which is what the point you made?

Hiren Gada: Because there are so much inventory available, so the buyer market is that extent.

Ayaz Motiwala: Also, okay, so because of the hits in the buyers market nature that you highlighted?

Hiren Gada: Yes.

Ayaz Motiwala: And one other question Hiren which you had highlighted about the operating leverage which the question was asked by another person. So in the way in the traditional media you have most of the time exclusive deals with a certain channel, in sharing digital content across all these global

players and regional and local players, you do not have exclusive deals, which is why you highlighted multiple platforms and opportunities to capture the audience?

Hiren Gada: Yes, there would be a few exclusive deals, but very, very few and far between and if at all I would have done an exclusive deal, I would have ensured that I am adequately compensated for the potential revenue of other platform.

Ayaz Motiwala: Right and so is that the reason why your own OTT app, would you link that logic to it meaning they cannot debar you to put out the same content you...?

Hiren Gada: Yes absolutely, you are right.

Ayaz Motiwala: And you did not describe what is this content library you have acquired, if this about Hindi films or regional, what is this NH the library that you have acquired?

Hiren Gada: In fact we have written in that also is music videos.

Ayaz Motiwala: Music videos?

Hiren Gada: Yes, music videos and I in fact gave some names also, so movies like Sholay and Hum and Jumma Chumma De De and when you have these music videos is what we have acquired from this.

Ayaz Motiwala: Right and you do not see a challenge on this OTT the way you bring it out versus being a supplier of content at a very high level you do not see a – your buyers being threatened by you as such?

Hiren Gada: No because we are not competing with them, in fact we work with all of them for those platform because they have a strength over there, but we are building strength more in some of these categories differently, so those in fact the platform are really not present in those categories at all.

Moderator: Thank you. Next question is from the line of Sachit Khaira from Smart Equity. Please go ahead.

Sachit Khaira: Good evening Sir. Thanks for the question. Very basic question, are you allowed to dub the content that you have for five years?

Hiren Gada: Yes, in most cases, yes, very few cases no, but yes in most cases we are allowed to dub.

Sachit Khaira: Okay, does it depend on the kind of rights that you own whether it is regional or its national, does it depend on that or if at all...

Hiren Gada: No it is a deal to deal, many times it is possible that the producer has already assigned it to someone else, if not then in most cases we would acquire it.

- Sachit Khaira:** Okay and Sir this quarter I was looking at the difference between your revenues and the cost of goods, I mean the gross margins just to sort of establish a trend and it seems to bounce around a lot, so I remember you are saying that whenever content gets bunched up your margin sort of shrink and does that still play out because this time it seemed quite...?
- Hiren Gada:** I think what we have been discussing overall is the fact that for us the focus is always much more on IRR, on the 18% IRR, IRR is a combination of turnover and margin, so margin being just one aspect, so many times if you have done a short-cycle deal between my acquisition and sales, then it could be on a lower margin, many times if I have done a longer cycle deal it would be a higher margin, so...
- Sachit Khaira:** Will it matter Sir that if your cost of financing or interest rates go up, let us say if it goes by 100 basis points you do not foresee any problems in being able to pass on in the form of higher the prices?
- Hiren Gada:** So definitely the overall cost of funding is headed upwards, there is no doubt about it. One at least by the grace of God we have been able to reduce the leverage to that extent, so hopefully that is one thing that is good. Rest to be able to pass on is a slow process, so over a period of deal, you will be able to ultimately pass on the increase in servicing cost.
- Sachit Khaira:** You do not foresee a problem there?
- Hiren Gada:** In a medium term no, in the short-term, k yes.
- Sachit Khaira:** Okay. Perfect, great. Thanks Sir.
- Moderator:** Thank you. Next question is from the line of Shekhar Mundra, an Individual Investor. Please go ahead.
- Shekhar Mundra:** Yes, Sir just wanted to understand revenue, just get a fair idea of idea how much is it from the new inventory has been one purchase in the last three years and how much is it from the old inventory?
- Hiren Gada:** Actually we have not been sharing this data and actually is very difficult to mind it that way, the reason being that for us it is strategic, when we say selling on television, the package combination of what has been acquired recently also or what could have been acquired two, three years back or what is sitting in our perpetual library all combination, so every deal has a kind of mix of all of that and that kind of helps improve the overall attractiveness and viability of the deal.
- Shekhar Mundra:** All right, so like if I see the last seven years like our sales have gone up by around 3x, 3.5x, but like inventory has gone up by about 10x, so is it like we are just building up and we can see the inventory turnover like coming back to better levels?

- Hiren Gada:** Yes, I mean, so this has been a discussion that we have had several times, but I will just repeat very quickly, yes over the last – I would say essentially around 2012 to 2014 onwards, we have anticipated a larger, faster growth in the digital media segment and because of which we have invested in building the library and roughly about a year back and which all has been earlier also shared and stated, we kind of reached a point where we got it, we kind of are looking at a stable inventory level at least to a point where additional investment requirement would be funded from existing inventory monetisation kind of a thing, so whatever we are investing now we hope to that it will get adequately funded out of the monetisation.
- Shekhar Mundra:** Right, okay Sir. That is it. Thank you.
- Moderator:** Thank you. Next question is a follow up from the line of Ayaz Motiwala from Nivalis Partner. Please go ahead.
- Ayaz Motiwala:** Yes, Hiren this is one final question from me, I mean on the reported numbers with the 18% IRR discussion and return on capital still looking interesting, your reported ROE has been suffering, so is that got to do with your cash flow priorities and payouts which has obviously kept reserves up on one side of it, do you have a thought on where should we expect shareholders returns to look in some time to come?
- Hiren Gada:** Definitely the fact that there is a certain leverage, it is into the overall profitability, so that you know goes without saying and I think our target obviously finally is to improve ROE because that should be the ultimate aim and at this point the focus overall is to drive a combination of growth, but still within the ROI parameters because we believe that the growth opportunities available is just phenomenal and within that we hope that if we are able to work on a couple of good initiatives successfully then it would translate into a significant ROE expansion.
- Ayaz Motiwala:** And link to the other question on your OTT app you mentioned the spirit would be to do a – not a massive burn exercise, and a more contained kind of exposure and you said we will have some smart content deals on the other side as well, so are you implying that you will have some sort of digital linkage to people who give you a movie and if someone snacks in and consumes that movie there is an addressability etc., is that how we should understand...?
- Hiren Gada:** No, what I meant was that while – so we would continue to work with what I meant content was on the sell side, so not on the buy side, so we would continue to work with the major platform, with other OTT platform for their own services and there is... some of them have build a certain scale and size, so rather to leverage on those audiences for that content on a non-exclusive basis rather than focusing on my content and creating a one more competing for as far as those aspects are concerned, but there are certain aspects where we have a strong presence and that we will leverage to build the consumption.



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Ayaz Motiwala: Yes you partly alluded to it and I will ask you that, but if you have very sort of similar content without the point which you made about exclusive content which you will help drive, then would this be a very viable operation?

Hiren Gada: Well as I said the target is to have a relatively low cost or a low fixed upfront cost build out, which essentially would finally help to keep the viability fairly – the threshold for viability fairly low.

Ayaz Motiwala: Okay, this is a growth thing, not a defensive sort of way that you think the traditional media will suffer and people who get to consume at least this content online etc?

Hiren Gada: No, I think traditional media I think it is still too early days for even digital right now to write off...too early days for digital yet to write off traditional media so soon. So ultimately in the medium term or may be longer-term it will have an impact, but right now as we speak even in US, which is a full broadband country for probably 10 odd years television continues to be alive and kicking, it is not fallen off the cliff. So we are still a growth market as far as TV is concerned, so I do not see at this point any impact of that, but for us this is purely a growth strategy today because there are many platform who do not run services, but if you have a service they will integrate you on to those platform, so for us to actually be able to create our presence on all digital platforms that consumers could actually visit for video consumption, this is a very important aspect to have.

Ayaz Motiwala: Right, okay, interesting we can talk more about this hopefully when we meet. Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question due to time constraints. I now hand the conference over to the management for closing comments. Over to you!

Hiren Gada: Thank you everyone for joining us for the Q2 FY2019 earnings call and looking forward to seeing everyone for the next quarter. Thank you.

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