"Shemaroo Entertainment Private Limited Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, Good afternoon and welcome to the Shemaroo Entertainment's Q1 FY 2020 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in a listen-only mode. And there will be an opportunity or you to ask questions after the Presentation conclude. If you need assistance during the conference call, please signal an operator by press "*" and "0" on your phone. Please note, that this conference call is being recorded.

I would now like to hand the conference over to Mr. Yogesh Kirve. Thank you and over to you, sir!

Yogesh Kirve: Thank you**.** Good afternoon to all the participants and thank you for joining in. We at Batlivala & Karani Securities are pleased to host this earnings for Shemaroo Entertainment.

To discuss the results and the result outlook, we have the senior management of the company represented by M. Hiren Gada -- CEO and CFO; and Ms. Kranti Gada -- Chief Operating Officer.

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

Hiren Gada: Good afternoon, everyone and thank you for spending time and joining us on the earnings call for Q1 FY 2020.

So, we have had a relatively muted quarter this time, with the top-line actually has grown at 16%. But EBITDA margin has come off to 22.8% from 31% and profit after tax has reduced by 16% to Rs. 16.38 crores from Rs. 19.55 crores on a consolidated basis.

In terms of digital and traditional media breakup, digital media has grown at 25.2%; and traditional media has grown at 11.6%. So, the break-up of the top-line of Rs. 143 crores is Rs. 48.7 crores digital media and Rs. 94.3 crores traditional media.

In terms of the key operational highlights.

So, it is the weak of macroeconomic conditions and a certain regulatory flux in India, which has overall resulted in a tepid growth in the country, which has finally led to slow down in consumption. And therefore, as being in a way derive demand from consumption primarily the advertising spends have been muted. This is coupled with, for us, the continuous investments by Shemaroo in new products, services, geographies, etc, to fuel our own growth that has also contributed to impacting the margins.

Among other operation highlights. Firstly, on ShemarooMe, we are available on Amazon Firestick and Apple TV. We launched Marathi category on the platform. So, initially we had Gujarati and Punjabi as two regional languages. We added a third language which is Marathi. And we won an award in terms of being recognized as Best Newcomer OTT during this quarter.

In addition to this, Shemaroo forayed into the devices space with the launch of three pre-loaded audio speakers - all in the devotional space which is Shrimad Bhagwad Gita, Bhajan Vani, and Quran Majeed.
And the DTH business extended its crime thriller, horror service named as Horror TV on the Airtal DTH platform in May 2019 and YouTube for us Shemaroo Filmi Gaane channel on YouTube crossed 25 million subscribers during this quarter.

Overall, happy to note and report that YouTube views have continued to be robust, so the content consumption continues to remain equally robust. In fact, we have, during this quarter actually crossed 150 crore views. So, we do about 50 million views a day now on YouTube. So, that has been the other significant aspect on the digital media.

So, yes, that is the opening comments. We can now open questions as people may have.

Moderator: Certainly, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. Participants, using speaker phones are requested to use the handset when asking questions. To enter the question-and-answer queue, please press "*" and "1" on your phone now. If you would like to withdraw your question and exit the queue press "*" and "1" again. We have a question from Mr. Sachit Khera from Smart Equities. Please go ahead, sir.

Sachit Khera: So, sir, this time, as you mentioned, the revenues have actually grown. But the content costs has actually grown disproportionately. So, would you say that the you were forced to sort of underpriced your content? Or has the acquisition cost really gone up? I mean, how would you describe it?

Hiren Gada: So, the overall margin structure on deals is a cyclical thing. So, yes, we definitely did a few low margin deals during this quarter. And that has resulted in a relatively higher content cost as a percentage.

Sachit Khera: No, I understand about the percentage, sir. I was actually more also a little bit more keen on getting your perspective on the absolute pricing movement. So, I understand that you were force to sort of let us say underpriced the content but have the acquisition costs, again, as it has been going up, has it still going up this quarter?

Hiren Gada: No, in fact. The overall environment being like this acquisition costs actually have remained relatively tepid.

Sachit Khera: Okay. Mostly if my understanding is correct, the movement was basically on our content being a little bit underpriced versus our historical level.

Hiren Gada: Yes. So, we took a conscious call to monetize the content at that stage. So, that we can participate as the content costs do remain tepid. I would say relatively flattish, so that we can actually take advantage of that, in terms of acquisition.

Sachit Khera: Fair enough. And also, sir, like you mentioned, that the advertising spend is the main tepid, but if my understanding is correct, actually likes of Zee and Star, they are all getting disproportionate benefit in terms of higher subscriptions. So, does not that sort of add to their spend on firms? Because I remember, a lot of these players are increasing their regional content acquisition and you built a very reasonable library in that space. So, I mean, do you expect weakness to subsist going forward or do you expect that to be recovering**?**

Hiren Gada: So, two things are there, one is the, if you map the year, almost our last five months, six months of the year calendar, we had our new tariff order impact. So, what the industry went through at that time was a regulatory environment related impact on their pay revenues. To some extend it affected ad revenues because rating also were a little volatile. But more impact at that time was on the pay revenues. Now, the current last maybe month or two months, I would say what indication we are getting is that has fairly stabilized and different broadcasters are at different stage of that catch-up, some are fully caught up, some are still on the path. So, I think, that stability of the pay revenues is now at least visible for them over the last maybe month or two months. On the other hand, on the advertising revenue, I mean, if I were to simply put it that way but two or three large categories of advertising are FMCG, automobile, etc. Now, the underlying sectors themselves are facing a certain downturn slowdown on demand, etc. So, which has led to cut in their respective ad spends. So, to that extent, it is this has been the experience of most of the broadcasters that we are working with.

Sachit Khera: Okay. All right, sir. Last bookkeeping question, I was noticing that the other expenses are down significantly Q-o-Q, could you have us understand that?

Hiren Gada: Q-o-Q. We like to look at it Y-o-Y because there could be some seasonality in that. So, some expenses may be linked to say the March quarter and things like that.

Sachit Khera: Okay, I understand but in let us say, the I mean even Y-o-Y

Hiren Gada: Y-o-Y, it is up by about 50%.

Moderator: Thank you, Mr. Khera. We have our next question Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I just had a few questions. So, last July, I think we had said that we were going to grow 5x in five years. So, that comes about to a CAGR of around 38%. And so, we have been growing in FY 2020, we grew by around 17%. And TTM we consider then that is a little bit weaker? So, are we talking about a lot of back ended growth or a lot of growth say this year towards the end of next year something of that sort?

Hiren Gada: Sure. Yeah, so let me rewind back to the 5x discussion that we had. I think, when we had a change of leadership and I was appointed the CEO, the question that was at that time put was that, what would be my ambition and where we would look at taking the company? So, as that ambition, I had definitely I have put out the thought that given where the industry is, the opportunity in digital space, etc., we should aspire to grow at 5x in five years. And that is something that we have been working internally a lot towards. And in fact, if you actually see some of our initiatives so we, for example, in the last quarter of last financial year March quarter, we launched ShemarooMe. In this quarter, we launched say the devices business, there are many more initiative which are in various stages of either planning or testing. We have expanded, our team significantly, added a whole lot of professional management from many peer industries, the logo, we have refreshed our look feel and logo. So, a lot of work has gone in towards that. Now, new initiatives will have their own build up time and certain amount of back endness next to them. So, that is bound to happen. As we have even put out in this, earnings release also we continue to invest and work hard towards each of these initiatives because we believe that notwithstanding these few cyclical aspects that keep coming around but the secular opportunity is that are available say on the digital front or many other fronts, they stand intact and we strongly believe in them. I can say one thing that as an organization, we are working day and night very hard to achieving this aspiration. Let us all go further best.

Shikha Mehta: Yes. But so, if we are working towards this aspiration,that would mean that over the next few years we will be growing at 38% CAGR or higher, right is that right?

Hiren Gada: Yes.

Shikha Mehta: Okay. And sir, I wanted to talk a bit about your margins as well. So, is this a structural change? Is this what we are expecting for the rest of the year or is this a one-off for this quarter at a gross margin level?

Hiren Gada: So, two things I will say. In the last almost three quarters to four quarters, I have guided towards a softer margin or I have more than guided, I have indicated margins being softer because of investment aspects that we have been doing I mean, if you see even for this quarter the people expenses are up by about 40%. Other expenses are up by 50%. So, there is a certain investment that is being done. But to answer your question, there are certain cyclical aspects, how long they will last? We do not know. So, it is very difficult for me to guide for rest of the year because economy is in a certain state. Is it dampening our enthusiasm to invest or continue to build out new opportunities and businesses? No. I think, we have seen over the last several decades of being in business, we have seen many cycle and rather we have seen that these are opportunities to actually build longer lasting and in fact, more better return businesses. So, that is something that we will stand committed to. And if you see even the kind of initiative that we have done, there are you can say drivers that over the next few years will kick-in and start or we hope that they will kick-in and start contributing to the growth both in terms of margin and in terms of top-line. So, at this point, how long this cyclical issue will remain? I think, is a question I am not able to answer. We do not have full visibility for that. We will take literally every quarter as it comes, I think. But do not believe that this is a structural issue.

Shikha Mehta: So, could you quantify the investments? We have made, which is affecting the margins, I guess? Could you give a figure at least ballpark?

Hiren Gada: Actually, I am not able to give because there are multiple initiative. So, it is very difficult for me to right now give that kind of a number. But if I have to just talk of the initiative, there is ShemarooMe, which is the digital video service, there is our devices business that kind of thing. So, there are multiple of these initiatives. Now this device business is just in a way launched. So, there is a certain plan, investment in terms of working capital, marketing, etc. Already, there has been some investment which has been done in terms of all of this because we did a test market and now we are doing the commercial launch. So, each of these has its own set of implication on the overall picture.

Shikha Mehta: And I think, the cost of materials has gone up significantly. So, has there been any one-off? Or a write-off? Or anything of that sort**?**

Hiren Gada: No, this is more, as I mentioned in the previous question, that it is a certain low margin deal that we did, a couple of low margin deals that we did.

Shikha Mehta: our 18% IRR model or has that also changed?

Hiren Gada: No, I do not see that as being affected in any significant way.

Moderator: Thank you. We have our next question Hiral Desai from Anived PMS. Please go ahead.

Hiral Desai: A couple of question. So, one was on this new media piece where the growth is now slowed from 35% to 25%. So, within that, could you talk about the three businesses and you know how they have shaped up or during the quarter?

Hiren Gada: Sure. So, telco piece, actually as earlier also we have discussed is now in a phase where that business is transitioning from a feature phone product to the smartphone, the market itself is transitioning from feature phone to smartphone. So, that is the whole aspect of that business. So, that business in a way you can say will be shrinking over the next few quarters.

Hiral Desai: There is one clarification, in case if you do a deal with let us say Vodafone for ShemarooMe that gets classified as telco revenues or would it be somewhere else?

Hiren Gada: No. So, ShemarooMe will be something that we will be looking at as a separate line item only in future because right now, it is too insignificant to really talk about it. But, you know, it will be probably a separate line item. That is the thought process, but we will figure out. But it is not because ShemarooMe is beyond just the telco fees there are other aspects there

Hiral Desai: Applications or users, yes.

Hiren Gada: Exactly. So, that is the reason why.

Hiral Desai: And YouTube and the platforms?

Hiren Gada: So, the syndication on platform continues to remain strong, we have had multiple deals with virtually all the major platforms, we continue to have new fresher deals. So, with existing deals overall, as we even saw in the YouTube number that the video consumption is, continues to remain very robust. So, as a result of which the demand for content from every platform is quite robust. And what is happening is that, as a newer set of consumers coming from different geographies, from different socio economic and age background, our content actually is connecting in a way better with that consumers. So, in that sense, the traction continues to remain. YouTube has in fact been better this year. Last year, it had marginally grown this year, the growth is actually better. Except that, again, we have to see how the ad slowdown overall will impact YouTube's own ad revenues. But the years as in fact started off better on YouTube. Rather I would put it this way that we have actually had a good beginning on YouTube relative to what we have had in last few years.

Hiral Desai: Okay. The other was broadly in terms of strategy now, given that the margins are under pressure, as of now and maybe will continue for next few quarters and the fact that maybe you will have to load up a bit on inventory given that things might get slow further. So, what is the thought on the debt side? I mean, is there a threshold on leverage that you would like to stick to by the end of the year?

Hiren Gada: So, I think the good thing for us is that, in the last two years we have actually had a good, so we have improved our balance sheet in the last two years significantly. So, our debt equity ratio, etc. are quite say robust. I mean, it is below 0.35 at this point. So, we are in that sense, in a comfortable situation. So, I will put it in this way at this point we have relatively slowed down on acquisition or investment, considering the overall market scenario. But what we are hoping and in a way expecting also is that prices will correct or at least be far more attractive, where actually better ROI could get generated. And at that stage, we will have to evaluate the options in terms of you know whether we want to load up any further debt or not. Although right now, that is not the thought. But I am just telling you that.

Moderator: Thank you, Mr. Desai. We have a question Anchal Agarwal from Care Portfolio Managers. Please go ahead.

Anchal Agarwal: Yes, I just wanted to ask further new recent product launch and devices business. So, we have recently put into devotional category. I wanted to ask, how do you see the product scaling up like in terms of new content coming up? Can you sort of highlight on that?

Hiren Gada: So, as of now, we have launched three products. So, we did a consumer research on this with Nielsen. And we figured that there is a latent demand for pre-loaded or pre-recorded audio devices. And So, we have launched now to into Hindu space, which is by Bhajan Vani and Bhagwad Gita, and the third one is in the Islamic religion, so that is the Quran Majeed speaker. So, sorry, I missed your question.

Anchal Agarwal: Yes. So, in terms of scaling up, what is the new content that you plan to bring in to the picture like some songs for some other target audience like this is the devotional part of it?

Hiren Gada: At this point, the core focus is on the devotional space itself. And there are still many more aspects and segments within devotional space which are still available and we are targeting those. So, to just give you an example, so there are there are language related things. So, right now, what we have is primarily Hindi but there are South Indian languages, there is other religions, like say Sikhism, etc. So, there are, there is a significant opportunity available over here, just to highlight that the research that we did actually showed a fairly strong use case in terms of the regularity with which people actually consume devotion is literally almost on a daily basis for the people who regularly consume. And therefore, this product fits in quite naturally into that use case. And when we did the test market these were in a way it confirmed some of these research findings that were there. And, in fact, the product design also we have done in that way. So, if I just highlight the Bhajan Vani, for example, where we have done the deity wise collection or singer wise selection, where people can do. So, it is very user friendly, in that sense for people to be able to select. So, typically, you have Mondays for one god, Tuesdays for another god, etc. So, those data wise selection, jap mantra, etc. segregation of the Aarti, Bhajan, Mantras, and all. So, it has been very well curated and highly user friendly as much as possible. Of course, we will learn more from the consumer end beat the products as we go along.

Anchal Agarwal: Yeah. Second question was in terms of distribution and marketing? So, what are the key initiatives that we have taken in terms of this product launch as off your target.

Hiren Gada: So, distribution wise, so there are two or three aspects to distribution, one is the core strategy is to reach out in the top few cites and then there is a next set of city. So, we hope that within a year, we should be in 80 plus cities, in terms of presence. The second aspect of distribution is the retail account. So, we started off with Archie's kind of outlet, which is a gifting product outlet and we have some good response in terms of movement, etc. And that is now being not just Archies few other similar key accounts or large format retail. And we are tying up with that Crossword you know, in Pune, Ahmedabad, etc., we have got many other similar key retails large format retail is there. And third is the digital. So, all key e-commerce destination we are present and reasonably well displayed and promoted across all. So, that is one. On the marketing side a very key aspect of the whole marketing aspect is the point of sale display and promotion that is there. So, there are those kinds of initiatives already there. So, that is done and then there will be a certain amount of mass media which will be guided by the business movement of the product and the way the scale is growing. So, at least we do not intend to do some big, huge campaign and then in anticipation of sale, we will be doing a campaign but not some burning some big amount of money. That is exactly what we intend to.

Moderator: Thank you, Anchal. We have a question Mohit Gupta, an Individual Investor. Please go ahead, sir.

Mohit Gupta: First of my question is as the YouTube premium has come up with ad-free services. So, now, how we will be going to get the revenue from the advertisement?

Hiren Gada: Ad-free is a fantastic opportunity for us, the challenge with ad-free is that it is a very small this thing. Actually, it is a paid service. So, you have to pay, to see ad-free content and whatever YouTube divides that money among partners, in terms of the way it is consumed.

Mohit Gupta: Okay. So, that means that if someone has taken the premium services and he has clicked on our channel, so one-time we are going to receive the money and one-time viewership cost.

Hiren Gada: Not one time. The way it was proportionate viewing, if he views 100 hours of content on YouTube and out of that say 10 hours is Shemaroo content, then we will get 10% of that revenue by whatever is the content by.

Mohit Gupta: Okay, got the thing. Secondary one is that Amazon Prime has crossed the subscriber base of around to be 10 million in India. Do you think India is moving on the web series based entertainment? So, in future how old Hindi movies will compete with the Netflix and Amazon Prime like that?

Kranti Gada: Actually, on every platform series as well as movies get consumed. Similar to how on television, you are movie channels and GEC channels. So, the series, I would say would be the equivalent of GEC and movies remain movies. In fact, they are already seeing very good traction of our movies across Asia of the catalog on all of these platforms. So, I do not see any reason.

Mohit Gupta: One of my reason to ask this particular question because the new rules of the TRAI has come up with that we need to opt for the channel, so we will going to pay for those channel only which we have selected and Star Gold, Zee Cinema and Sony Mix are on the higher side of the of the cost. So, I do not think that people are consuming or selecting those particular channels.

Hiren Gada: I would say there is no comparison because TV platform works in a different way and digital works in a slightly different way. Having said that, actually, the feedback we have from most of these platforms is that there post new tariff order regime their subscription revenues have significantly caught up back to what it was prior to that. So, in that, since I do not see that people are not opting for it because earlier it was subsumed in the price. Now it is a separate opting. But finally, any platform which is serving good content is today getting a certain amount of traction on television.

Mohit Gupta: Okay, got the point. Sir, last question, what are the expected sales numbers of the Shimano Bhajan Vani and the Bhagwad Gita and all those things by the end of FY 2020 or FY 2021, you can give some numbers or the target what you are having?

Hiren Gada: Well, it is very difficult too early first of all and secondly, my internal target is very difficult for me to share here for competitive reasons. But what I would say is that these are category which we believe is a steady state category and the devotional category. And we are seeing that kind of traction on the products.

Mohit Gupta: No, basically, what we want is to analyze what numbers, this particular thing can affect on our revenue terms.

Hiren Gada: No, I understand that. But it is too early. The commercial launch is underway right now. So, it is too early for me to guide or I mean, so, anyway, I do to guide but even to give any indication on that. And secondly, for competitive reasons, I would not actually resist from doing that.

Moderator: Thank you, Mr. Gupta. We have our next question Sarvesh Gupta from Maximal Capital. Please go ahead, sir.

Sarvesh Gupta: So, I think the gross margin number were a bit of shocker this time, I do not think we have achieved such low gross margin numbers in the last three years - four years, five years. So, what was the need of doing low margin deals in this quarter? I know that we have an IRR target but even during demonetization, I do not think we achieved such a low gross margin numbers. So, if you can throw some light on that.

Hiren Gada: Sure. See, fundamentally, at all points we look at the market or the sector is looking in terms of the outlook and at that point, we saw a certain level of slowdown coming. And at that time for us locking in certain amount of business was important in terms of being able to generate certain amount of sales liquidity, etc. Because, finally, that is how the business is structure. So, the whole idea is that can we convert that into cash and be ready for a cyclical downturn that could be coming because that would actually help in generating better IRR acquisition potential.

Sarvesh Gupta: Understood. And will you be in a position, so last year, for example, we did around maybe 45% gross margin number. So, where can we be this year? Any indication on that side?

Hiren Gada: Sorry, I missed what you said, last year?

Sarvesh Gupta: Sir, last year in FY 2019, I think our gross margin was around 45%, if I am not wrong.

Hiren Gada: For the gross margin, okay.

Sarvesh Gupta: Yes. So, where can we be this year?

Hiren Gada: No, as I said earlier also that it is too early, right now and the way the industry is moving right now we will have to take it one quarter at a time. The industry in fact currently is not having a full visibility for the rest of the year. Because so last quarter, we had World Cup and Election, which in a way helped consumption and but it took away a certain amount of spend from the core entertainment categories. And of course, IPL is now a regular seasonality issue, but it was Cricket World Cup and Election. But considering the economic slowdown that is prevailing, how long that prevails, how long that last and what is the impact of that on many of the advertisers like you know, FMCGs or those kinds of players is actually a very difficult call at this point in terms of projecting out. So, unfortunately, I am not in a position to give you that view because industry itself is, so if I had to put it this way, I think everyone is looking forward to the Diwali quarter to be bucking up hopefully with a good monsoon and all of the pro-cyclical factors kicking in. And if that happens, this may be a short-lived cyclicality, I think then we may have a decent overall trend further here. But like I said, these are too many moving parts, unfortunately.

Sarvesh Gupta: Understood. So, if I understand your argument, I think you did that the content price is going to go down further and that is why you wanted to be ready?

Hiren Gada: Yes But at least now grow stagnate. But what happened is that if I am holding the inventory for say eight months, my holding costs adds to it versus if I am able to get a similar prices it must later fresh content. So, I am making that better IRR or a better gain on that capital which I read up.

Sarvesh Gupta: Understood. And can you help me with where we are in terms of inventory debtors and debt number compared to the March quarter?

Hiren Gada: Sure. So, debt is at March 2019 was Rs. 202 crores, which June 2019 is Rs. 207 crores.

Sarvesh Gupta: So, same. And inventory?

Hiren Gada: Inventory, so I have a working capital total. Inventory break-up I currently do not have. So, we were at about Rs. 750 crores working capital inventory plus receivables, our current assets rather I would say. And we are at about Rs. 770 crores thereabout Rs. 768 actually.

Sarvesh Gupta: So, this would be majorly in debtors as per you or this is for inventory?

Hiren Gada: Right now, I do not have the break-up but my sense is that it could be in debtors.

Sarvesh Gupta: Understood. Can you disclose the number of paid subscribers for ShemarooMe or any other data which can help us track the progress?

Hiren Gada: As I said earlier, also is that this year is a year of distribution for ShemarooMe and ShemarooMe was considered more of a B2B kind of a product. It is very early days, a lot of our distribution deals are at various stages of integration or closure. I would not be in a position to give numbers at this stage. And as I said earlier, also that is right now in terms of contribution to the top-line or into the digital business is relatively insignificant.

Moderator: Thank you, Mr. Gupta. We have a question Ms. Shalini from Quantum Securities. Please go ahead.

Shalini: Just wanted to check, given the fact that there will be investments in marketing. So, these are investments behind ShemarooMe?

Hiren Gada: Partly ShemarooMe. But ShemarooMe is much more B2B but more for the devices business.

Shalini: Okay. And sir, would you want to share some sort of investments behind marketing?

Hiren Gada: At this point, it is too early for me to really share. But as I said that we have marked a certain initial outlay and how the business scales up. It will define how that next set of outlay will be planned. So, we do not want to overspend. But we want to keep monitoring and as a business scale, we hope to scale up the marketing.

Shalini: Sir, my other question was that, I mean, previously, we have you have part of the reason for the slowdown in the new media is basically slowing revenues on YouTube because YouTube I believe the realizations were falling quarter-on-quarter. So, sir, like now would it be correct to say that part of the slowdown in your new media business is because of the continuing slow down the YouTube I mean, if you could just please speak about this?

Hiren Gada: Sure. Two - three things, YouTube till now in fact, in the exclusive growth phase of consumption and viewership that we were seeing YouTube continue to remain flat, but last year was the year where it grew and this year that growth has continued impact in this quarter at least. However, just to put things in perspective, the realizations on a CPM basis, the ad rate basis continue to fall, it is the sheer growth in viewership that we are seeing, literally on a year-on-year we would be up by more than 70% on viewership. But commensurate to that the revenue growth is much, much significantly lower I would say. So, the reason for that is that the realization is that the realization is lower. But if I have to overall look at the final revenue number, we have seen growth. So, this quarter, definitely YouTube has at least grown or come back into the growth trajectory or rather, I would say remained in the growth trajectory which it was towards the end of last year that has continued. So, that is one thing, in terms of the overall growth of digital media, I think one is that the base is now significantly higher. So, definitely that base effect is bound to kick in. So, that is one reason for the slowdown. Second is, if we see the other discussion that we just had with one of the callers is also that the telco VAS business, which is a feature phone-based business that has now it is migrating to the smartphone business. But that will take its certain time to migrate. And that is also one of the reasons, so that revenue go there has dropped but commensurate to that the smartphone revenue transition has not yet kicked-in. I would say not yet kicked-in that proportion.

Shalini: Sir, I just want to understand now let us say a telco VAS business is migrating to a smartphone. But how does it affect your revenues?

Hiren Gada: So, the current product that I am selling has a certain price, certain penetration in terms of numbers. And therefore, a certain revenue. Now that is to the feature phone market. But the product I am selling to the smartphone market is a different product with ShemarooMe. So, that has again a different economics in terms of price volume and realization. So, that is the impact. So, it is not a one to one correlation that everyone who had a feature phone will go and move to the smartphone and buy or consumed ShemarooMe content. It is a new consumer who is consuming ShemarooMe and a older consumer who is disconnecting my web product.

Shalini: Okay. So, in one sense, ShemarooMe is to an extent cannibalizing on your telco VAS business, to an extent?

Hiren Gada: No, it is the reverse actually. See, this is technology change, right. So, the world is moving from feature phone to smartphone, right. So, the option for us was that you let that business ultimately shrink to an insignificant number. But for us, we actually looked at ShemarooMe as the opportunity to fill up that gap of the degrowth that feature phone business will get. So, in that sense, it is not about cannibalizing or anything, rather, it is a growth opportunity to not just cover up but to actually be better than that because that opens up many more opportunities. Plus, I will also add another very important aspect which is not adequately understood or maybe discussed is the fact that the kind of data analytics, etc., the quality of business at ShemarooMe is significantly higher with better result. I have a much closer analytics and data availability in terms of user usage pattern, content, consumption, and many, many other aspects which was never the case in the feature phone business.

Shalini: Sir, then but is my understanding correct, now ShemarooMe is an OTT platform which means that it is available on the TV, am I wrong here?

Hiren Gada: TV, no ShemarooMe…

Kranti Gada: Is actually on the phone.

Hiren Gada: Largely on all digital platforms. Now, if you are consuming via say an Amazon Firestick on television yes, it could be available on that. But still it is essentially delivered via internet.

Shalini: On the phone you can…

Hiren Gada: Delivered via internet whether you consume it on phone…

Kranti Gada: In the digital pace overall. At our industry level 95% to 98% of the consumption happens on the mobile phone in India and roughly between 2% and 5% of the consumption happens on the television. So, television in fact even laptop, all other devices.

Hiren Gada: All other devices, PCs or all devices.

Moderator: Thank you, Ms. Shalini. We have a question Ayaz Motiwala from Nivalis Partners. Please go ahead, sir.

Ayaz Motiwala: I have two questions. One is on the cash flow in the quarter I did not catch if you are explaining the change in receivables. But if you could explain that since we do not get the quarterly balance sheet.

Hiren Gada: So, the current assets have gone up by roughly about Rs. 15 odd crores.

Ayaz Motiwala: Rs. 51 crores?

Hiren Gada: Rs. 15 crores, one-five, roughly Rs. 15 crores. And debt was roughly flattish, so we were at Rs. 202 crores in March, we had a Rs. 207 crores in June.

Ayaz Motiwala: Yeah. So, you mentioned about investment in different aspects of the business from ShemarooMe to the devices business and obviously, the core content business to buy new titles for your licensing period. So, while your point is already appreciated, I am making an attempt to understand your intended aggregated spending plan because there is one sort of impression that is getting formed in the marketplace is that this is now becoming a much more capital intensive business both in terms of content acquisition because other big guys have come in which you have explained but you could put some number to that. Secondly, ShemarooMe and OTT there are 36 players, so what is going to happen?

Hiren Gada: Okay. I will attempt to answer this. So, fundamentally, firstly, content. So, content is a lifeline of any media business, right. So, no TV channel can work without content, no digital OTT service will run without content. So, there is a certain buying and selling of content that is always going to remain and that we have never said that we will stop buying. What we have always said and which if you even see for the current this thing is that what we will buy and versus so what we will spend versus what we will monetize, we will be looking at a surplus on that, correct? So, that is one aspect of the content investment. If I have to look at, so there are 36 OTT platforms and actually there, maybe another 8 to 10, launching over the next 12 months. So, now, the fact is that digital media and digital business has opened up many more consumption possibilities, many more I would say many more opportunities in terms of reaching to the consumer and engaging with the consumer. And I think, that is what everyone is trying to do that. We have looked at a relatively I would say lower cost option, still it has a certain amount of CAPEX intensity, it has a certain amount of ongoing OPEX, etc. because you are on an ongoing basis, making investment in the technology or developing new platforms and integrating with new partners, etc. on ongoing basis. The question always is going to remain finally, that is all of this is going to add up and lead to a higher and better monetization of the content or not. I think, that is what we all are aiming for. And I am hopeful that once we cross a certain scale, that should really not be too much of a problem because the significant content investment specific to this platform is relatively limited. So, to that extent, so we have not gone for example, created the web series or we have not gone in and bought on the latest and greatest movie blockbusters or anything of that sort and rather what we have focused on, is to segment the audience. And the idea for us is to become segment audience, based on consumer needs, so regional one way of doing it. Bollywood itself into Bollywood Classic and Bollywood Premiere is another way to do it. And then Devotional kind of thing is another way to do it. So, what we are trying to integrate is our work with is the consumer needs and we are unique or large player maybe number one, number two, kind of player in those kind of categories that we are present in which then makes us like a must have for every platform.

Ayaz Motiwala: Right. Okay. I mean, just going back to the aggregated question, on the last two years, three years, of the spending on content, primarily to acquire movie licenses and the spirit with which you said that the pace of monetization will be at numerically in numbers faster than the pace of acquisition in rupee or dollar terms. So, can you put some numbers versus it showing up in annual reports in different sort of high title and heads on what you have spent over the last couple of years on content and what you intend to do on just primarily for movie content which you have been buying on an ongoing basis and which is your core business at (+70%) of revenues.

Hiren Gada: Sorry, I am not able to grasp your question.

Ayaz Motiwala: My question is that what have you spent on content in the last couple of years, which was ahead of your monetization clearly, which is why the amount was going up faster and working capital was going up. And you had mentioned that the debt had peaked, which was year before last. And then this year is also past, which is 2019. So, the question is that going forward, what do you intend to spend on content or movie acquisition side of the business?

Hiren Gada: What we intend to spend on?

Ayaz Motiwala: Yeah, I mean, there should be some sort of budgets or whatever, there could be some opportunistic spending.

Hiren Gada: Yes. So, we started with a certain budget, as I said earlier also that we at this point given the overall scenario, we have actually slowed down on that to some extent. But conserving the cash and looking for opportunities as they come up in the market.

Ayaz Motiwala: Okay. And lastly, the apparel and the restaurant business if you can make a quick comment on that I mean, I saw one that the restaurant was rolled out somewhere Andheri and you also do some apparel or you were intending to do. So, is there any light that you would like to throw on that aspects of the business?

Hiren Gada: So, these are many as I said many initiatives some test markets we are doing, we do not know which of these will finally scale up. In a way, I put out some you can say risk capital towards it. If it works, it can have a upside to it. If it does not there is nominal kind of whatever charge or write-off or loss so the overall thought process is that Bollywood actually can go much beyond just traditional just film, viewing and stuff like that. I mean and actually, in a way, Hollywood is a big example, for that. So, there are many different opportunities to actually see how we can do that. So, that is what the team has been experimenting with and Yedaz is a brand that we created for as a Bollywood merchandise brand. And we have some other categories. But primarily, what we have done is taking a lot of film related things like dialogue and pictures or some caricatures and stuff like that and made it into some cool stuff that people can use or connect with on a regular basis. So, we have experimented with a few categories. This is still at I would say at a fairly nascent stage. And I mean, that is the whole idea.

Moderator: Thank you. We have a question Adit Shah from Vibrant Securities Limited. Please go ahead, sir.

Adit Shah: I wanted to ask last concall, you mentioned that we are on an aggressive hiring spree for the new initiative. So, are we done with the hiring or is the hiring growth still going to continue?

Hiren Gada: The hiring at this point well you continue although it is relatively slow down to the extent that a lot of key positions have been filled. But there are still certain newer initiatives or certain positions which will keep getting filled. So, I would not say that we are fully done with it. But it is relatively slower.

Adit Shah: So, for the full year can we expect the employee cost to be Rs. 60 crores - Rs. 70 crores or more than that assuming the current run rate?

Hiren Gada: I think, it should be upwards of I think around 70 range.

Adit Shah: Okay. And also, could you give the split within the new media revenue between YouTube, OTT, and telecom?

Hiren Gada: Roughly, around between 40% to 45% from the telecom and remaining roughly now equally divided between YouTube and the syndication so 30 odd each; 27 odd percent; 27% to 30%.

Adit Shah: Okay. So, YouTube, which is the fastest growing out of these three and how are you going to replace the telecom revenues as you said because this is a transition the telecom revenues?

Hiren Gada: So, overall, YouTube and syndication both continue to grow more or less equally fast. And then, of course, hopefully, over the next few quarters the ShemarooMe also will kick-in in terms of monetization and revenue.

Adit Shah: Okay. Also, you mentioned a certain cyclicality where because the gross margins are like 39% compared to 45% year-on-year. I want to know is there any particular strong quarter and also you said about this industry slowdown? Could you please elaborate more on that?

Hiren Gada: No, I did not refer to seasonality, I am saying cyclicality. So, some quarters there could be some seasonality, so much quarter was in a certain way better or December say YouTube is better. So, those individual quarter this thing may happen. But here, this was more in terms of cyclicality of the business that we saw that time focused on getting a certain amount of deal pipeline in place. So, that is what we worked on. Sorry, what were the other question you asked?

Adit Shah: So, you mentioned something about an anticipated slowdown in the industry?

Hiren Gada: Yes, correct.

Adit Shah: So, elaborate on the reasons and what is the time horizon are you looking at?

Hiren Gada: See, there are two revenue streams for the industry at a larger level. There is pay revenue and advertising revenue, right? So, advertising revenue has been a large contributor for the industry but finally, media depends on advertising and advertiser normally are the consumer brands by in large, whether it is FMCG categories, e-commerce, automobile, BFSI or various other advertisers. Now, in the current economic environment, many of these sectors, particularly the more consumption driven sector, are seeing a significant slowdown, as a result of which their ad spend has slowed down quite a lot. And that is what the industry is currently grappling with.

How long this will continue, I think is a much more macro question. Because if we see say post Diwali an overall improvement in the economy and trends then everything can be back on track, pretty soon. And see, one thing is there that India is a consumption-oriented economy and therefore, every brand needs to spend advertising marketing money to build its brand and stay connected and relevant to the consumer. So, in that sense this is not something that is going to go away. But it is just that the feeder industry facing a slowdown will impact the derived demand of the media industry.

Moderator: Thank you, sir. We have a question Mr. Mohit Gupta, retail investor. Please go ahead, sir.

Mohit Gupta: Sir, in the previous concall, you have said that the accumulation phase of the movie titles is over in FY 2019? So, is it correct to say that our revenue has peaked in FY 2019?

Hiren Gada: No, this year also we are higher. So, what we said and I will repeat what we said is that we were in a inventory build up or a library build up phase. What it meant was that we were investing more than we were earning, we raised equity for that, we borrowed and we used all our internal accruals for that. That phase got over almost I would imagine around two years back where we went into a phase where the internal approvals are more than adequate to fund the fresh investment needs. So, nowhere we have said that we will stop investing, it is more than that aggressive library building phase which we had that kind tapered off.

Mohit Gupta: Okay. My understanding is supposing we are having Rs. 100 of inventory and in a particular for a complete year, if we just write off a 10% of our inventory that will be Rs. 100 and we are getting a advertisement revenue from those Rs. 100 inventory, Rs. 10 advertisement revenue. So, you are saying that advertisement revenue what cash flow is coming, same cash flow will invest for the inventory? Is that my understanding is correct?

Hiren Gada: No, you need to take better look at the overall earnings profile and the accounting treatment then I think you will get a better understanding of how it is working.

Moderator: Thank you, Mr. Gupta. We have a next question from Ms. Neeta Khilnani from Batlivala & Karani Securities. Please go ahead, ma'am.

Neeta Khilnani: Sir, just wanted to understand with the new business initiatives that you have outlined, do we still maintain a guidance of minimal inventory additions, net additions in FY 2020 or we could see inventory sort of build out this year?

Hiren Gada: So, as I said earlier that, it is still early in the year for me to comment too much on how this will pan out. So, one is of course, there is some working capital, that will get added on account of some of the newer business initiatives, particularly on the devices side. So, that is something that will get added. But against that, we have to figure out how the overall sales and inventory moves on the content side. It is early days right now for me to really comment or give a outlook on that.

Neeta Khilnani: Sure. Sir, and just one last question. So, on the digital or the new media pace are you confident of maintaining a (+20%) growth considering that our telecom fees and sort of transitioning into ShemarooMe, which will take some time to scale up? And YouTube is doing fairly okay. So, are we confident of entire fees growing 20% plus in FY 2020?

Hiren Gada: Our effort would be definitely to do more than that. This point if YouTube ad slow down, we have to keep monitoring, I think because it is something that whether it affects YouTube or not it is something right now indeterminate, we do not know. Because if it does not then I think we should be able to be better than that. If it does affect then we could get marginally. But I think that much range, I think is something that we should be I mean, we are working, actually we want to maintain it at this current rate. But obviously these other industry challenges, economy challenges are hit in ad spend.

Moderator: Thank you, Ms. Khilnani. We have a follow-up question Adit Shah. Please go ahead, sir.

Adit Shah: So, in the last concall you had given the new media split as being 40% for telecom, 35% for OTT and around 25% for YouTube. But now you are saying that telecom is 42% to 45% which means its share has increased and OTT and YouTube both are around 28%, which means the share of OTT…..

Hiren Gada: So, as I have said these are indicative numbers, I am not in a position to give you exact numbers. But I can safely say that the share of telecom has come off.

Adit Shah: So, share of telecom has got down basically?

Hiren Gada: Yes.

Adit Shah: Okay. And what is the other income related to?

Hiren Gada: Other income?

Adit Shah: Yes.

Hiren Gada: Other income, I mean, it is less than a crore of rupees. I will have to check but this could be some interest accrued somewhere or some those kinds of things.

Adit Shah: Okay. And last quarter we had as other expenses of Rs. 13.5 crores, which included the expenses for the launch of ShemarooMe. And now, on quarter-on-quarter, it has reduced by around 45%. So, do you see these other expenses going up?

Hiren Gada: I would look at it on a year-on-year basis it has gone up by 50% on year-on-year basis.

Adit Shah: Okay. So, do you see this figure still increase because of the new projects that under undertaking?

Hiren Gada: Partially, yes. So, I do not know for the full year I do not think it will go up by 50%. But it will go up definitely to some I mean.

Moderator: Thank you, Mr. Shah. I would now like to hand over the floor to the management team from Shemaroo for closing comments. Please go ahead, sir.

Hiren Gada: Thank you, everyone for joining us on the Q1 Earnings Call. Looking forward to seeing you all for the next quarter. Thank you very much.

Moderator: Ladies and gentlemen, this concludes this conference for today. We thank you for your participation and for using iJunxion Conference Service. You may please disconnect your lines now and have a great evening.