

Shemaroo Entertainment Limited
Conference call
(February 14, 2020)

Moderator: Ladies and Gentlemen, Good afternoon and welcome to the Shemaroo Entertainment Q3 FY20 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only-mode. And there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal the operator by pressing * and 0 on your phone. Please note that this conference 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 Yashashri. Good afternoon to all the participants and thank you for joining in. We at Batlivala & Karani Securities are pleased to host this earnings call for Shemaroo Entertainment. We will discuss the results and the result outlook. We have the senior management of the company represented by Mr. Hiren Gada, CEO and Ms. Kranti Gada – COO. We will now give a call to Mr. Gada for his opening remarks which would be followed by question and answer session.

Hiren Gada: Good afternoon everyone and thanks for joining our conference call for the third quarter ended financial FY2020 ended on December 31st, 2019. For the third quarter operational income was 97 crore which was a decline of around 35% on a year-on-year basis. EBITDA for the quarter was 19.5 crore with an EBITDA margin of around 20%. Profit after tax was at 8.5 crores with a PAT margin of 8.76. The net expenses on various new initiatives for the quarter were around 7 crores, so if you exclude those our EBITDA and PAT margins were in line with our historical performance of recent quarter. Coming to the year to date performance, the operational income for 9 months was approximately 390 crores, EBITDA was reported at 80 crores with EBITDA margin of around 20.5%. Profit after tax was 44 crore with a PAT margin of 11.3%. Again, the year to date expenses on various new initiatives were around 15.7 crores. For the third quarter digital media revenue grew by 13.2% to around 48 crores from 42 crores. The 9 month end digital media revenue have grown by around 20% year-on-year to 152 crores from 127 crores last year.

Our performance on YouTube continues to grow; Shemaroo Filmi Gaane was the sixth most subscribed channel in India and 36th most subscribed in the world. We crossed 30 million subscribers on YouTube on our channel Filmi Gaane and 20 million on ShemarooEnt. Traditional media revenue has been a big contributor to the overall decline in the topline and traditional media revenues have declined by 54% to 49 crores from 106 crores in the same quarter last year and for the 9 months ended December 2019 .traditional media business has de-grown by about 23% to 238 crores from 309 crores. Overall, as you are aware and as we have discussed in the previous earnings call also, the microeconomic environment conditions have been very challenging for the media industry primarily due to reduced advertisement spending. The overall economic slowdown and sectoral challenges faced by pretty much in all sectors and especially the FMCG and auto companies which are large spenders, have resulted in a reduced and delayed advertisement spent and this in turn has reduced content investments by our client base thereby affecting our traditional media business and this was evident across the entire overall media sector as well.

It is important to note that this segment is highly cyclical in nature and linked to microeconomic factors. However, we have been seeing certain sector specific issues getting resolved and there have been some improvement in sentiments since January thereof. Also we have taken various organization wise cost rationalization measures in order to offset the impact. Despite the economic slowdown, we continue to strategically, cautiously invest in our future as we remain confident of our business model. Many of these initiatives are at nascent stage of investment and hence have impacted the overall margins. Most of these investments are expected to reach breakeven levels

in FY21 and start contributing thereafter. Keeping this in mind, this year apart from investing in our regular business of acquiring titles we have invested in people and added new initiatives. We have mentioned before that we are going to gradually transition to B2B2C and B2C. With this in mind we launched ShemarooMe at the end of the last financial year which is our subscription based OTT Digital platform working primarily on a B2B2C partnership model and available on existing platforms like Telcos like Vodafone Play Airtel etc. as well as various newer platforms.

The traction on this platform so far has been encouraging and we have launched ShemarooMe globally and it is now available in 150 countries. In this quarter, we also signed a strategic partnership with MX players for ShemarooMe and it also has been made available to Cloudwalker TV, TCL TV, Android TV globally and local devices in USA. Preloaded devices which were launched in Q1 of this financial year have also seen a very good response and appreciation from consumers. We are currently focusing on building our distribution base and we expect to reach critical mass of distribution approximately by the end of the current financial year. We had launched two new preloaded audio speakers in this quarter which were Amrit Bani, which is a Sikh Devotional speaker and Sai Bhajan Vani.

As you know our core strength is in enhancing and monetization of intellectual property rights. The company has over the years build a strong regional library in addition to Hindi movies.

In order to entrench ourselves deeper and enhance the distribution and monetization of our existing Marathi titles we launched a free-to-air Marathi movies satellite channel called as Shemaroo 'MarathiBana' in December 2019. We are currently available on DD Free Dish and leading DTH and cable operators.

Lastly, let me conclude by saying that the management would like to assure you that we are very attuned to advent of facing the sector currently and everyone in the company is working diligently to counter this and we are confident that in the long run our overall strategic initiatives will bear fruitful outcomes. Now I open the floor for questions.

Moderator: Ladies and Gentlemen we will now begin the question and answer session. We have a question from Mr. Sachit Kherra from Smart Equity. Please go ahead.

Sachit Kherra: Firstly Vodafone historically being a reasonably large customer in our telecom VAS segment I mean considering the current scenario that is playing out and considering their limited investment options which they have in front of them would that be a further strain in our future digital revenues?

Hiren Gada: At this point I can say that we have not seen any such concern play out in our operating relationship with Vodafone and the operations and the business with them continues to be normal as it has been for last several years. If there are any challenges, so we understand the whole AGR issue, that is affecting at least the two incumbent telecom operators? At this point I would say that it has not been affecting any of their existing operations in anyway. So we do not know how it will play out in future.

Sachit Kherra: But as a worst case scenario if we were to model what kind of our digital revenues might potentially be impacted if based on investing?

Hiren Gada: I will put it slightly differently. See India has a certain installed base of telecom consumer. So if one operator were to exit ultimately the consumer has to migrate to one of the other two operators where again we are present in adequate measures. So in that sense I do not see too much of risk of business I mean there will be a transition probably, but ultimately I do not see that at the core, there is consumption happening and that I do not think this will go away in anyway. So yeah I mean maybe instead of giving you a perspective at some point there were more than 10 telecom players today there are three. So ultimately the consumer have migrated to 3 out

of 10. So our revenues would have earlier come from 10 accounts and today it is coming from 3 accounts.

Sachit Kherra: As we see most of the broadcast networks are investing quite heavily in their reserve on OTT platforms and I believe that other than the macro headwinds their investment in the Bollywood movie channels, the traditional broadcasting space has henceforth taken a backseat if I may, do you think this is a structural change where investments & advertisements are heading towards digital platforms rather than traditional ones?

Hiren Gada: So two things I would say one is we own a very strong library on digital side also. So anyway a move towards investment in digital side in a way for us beyond a point is agnostic because for us we have platform and technology agnostic being a content owner so that is one aspect, but more specifically to answer whether this is structural or cyclical. See at this point what I can say is that in terms of revenue contribution television is a substantially higher revenue contribution to everyone. Yes, everyone has been investing in building their digital libraries so to say or digital originals or whatever you may say digital content to feed the digital platform, but let us not discount the fact that overall television continues to be a very strong revenue share for revenue pie for each of them and therefore it is highly improbable that they will reduce investment in something which is their core bread earning kind of thing in fact what is probably happening is part of the cash flow generated here is kind of being diverted to invest in the digital side. I do not see that as a structural change. Also I will add right in terms of if we see the consumption trends on television they continue to remain very strong. So currently the monetization of that consumption is taken a hit due to the economic environment, but the consumption trend on television continues to remain very strong.

Sachit Kherra: Actually sir we as investors we expected that the subscription growth will sort of offset ad revenue decline, but that has not happened because they have very aggressively reduced the investment in the traditional space?

Hiren Gada: In fact so what also happened in the subscription is very new and to a certain extent I would say at least for the first two quarters there was uncertainty on the subscription side due to the NTO settling in, but now it is kind of getting on back to some extent, at least on a new tariff order impact is there.

Kranti Gada: The increase in subscription revenue was seen to offset the loss in ad spent due to the new tariff order impact not due to the economic slowdown impact.

Sachit Kherra: As far as the current scenario do you not see ad budget of your customers returning?

Hiren Gada: No, I do not think that is a case because this is a consumable content, content is consumable for them, I mean if someone has a five year period everyday they are consuming that period on a daily basis so people can probably postpone it by some period, but beyond a point it comes back and hits their viewership which hits the channel, then it hits the competitive position many things take a hit.

Moderator: Thank you. We have a question from Mr. Nishit Shah from Nitin Capital. Please go ahead.

Nishit Shah: My question was again regarding the digital media business, so last call you mentioned that around 20% to 25% growth would be expected going forward, but in this quarter again we have seen a 13% growth and the base is at a low average point and therefore it is not really high, so what is the reason that this kind of growth is taking place?

Hiren Gada: So on the digital media side one of the key things that we have earlier also mentioned and we have been discussing or in fact from the first quarter of this year is about the decline in the

Telco business, so Telco business which was probably year and half back was more than 50% and has now in this quarter declined to in the range of 20% to 25% of the overall contribution, so the mix has changed and that business has actually gone down so it has pulled down the overall growth by a few percentage point, but the business on YouTube continues to grow well, syndication business and ShemarooMe I mean all the three have been contributing to the growth. It is a telecom business it is currently at 20%, 25% and we think that it may probably settle in at around between 10-15% of the overall business of topline.

Nishit Shah: So just adding further on YouTube and ShemarooMe side of things so what proportion of your digital media revenue is YouTube and second is if you can give any metric to track ShemarooMe subscribers or the daily active users on ShemarooMe?

Hiren Gada: So the overall breakup for our digital business is telecom business around 20% to 25%, YouTube is between 35% to 40% which was below 30% just three or four quarters back so that has grown and the Syndication and ShemarooMe combined is at between 35% to 40%. So the telecom business is now given way to these two other revenue stream so that was what I was eluding to that, the mix has kind of changed and secondly, so, ShemarooMe as we discussed earlier also that this is not a B2C kind of a business. So the whole focus is B2B partnerships. So the usage matrix are derived from our B2B tie-ups from different telecom operators as well as different platforms that we are partner in it. Like for example as I mentioned earlier that we have MX players and each of these are very varied different arrangements as well as different consumption matrix and usage matrix are there. It is very difficult for me to therefore at this point give a better picture on the overall number because different players have been skewing in different ways and therefore the numbers are, at this point, not in a position since each partnership is viewed differently. So at an aggregate level it is kind of not giving a clearer picture.

Nishit Shah: Another question was based on the new businesses with preloaded content which we started selling so if you give the number or revenue of that is it early days on that front?

Hiren Gada: Just to finish this as I mentioned earlier also is that the distribution which is still expanding I mean some key distribution have gone on stream late as last week we still have not reached that critical mass on that on the distribution and till the time again we cannot talk of the numbers in any case till that time.

Moderator: Miss. Shikha Mehta from Equitree capital has a question. Please go ahead.

Shikha Mehta: On the last concall we had suggested that this year we would see a negative single digit growth in the traditional media, but this quarter we see quite significant de-growth and if you see for the 9 months also it is almost 23% of a de-growth, so for the next quarter what are we suggesting, are we still going at the single digit negative growth or is it going to be higher?

Hiren Gada: The last call that we had was in second half of October and subsequently what we saw play out in the rest for that quarter actually was quite disappointing even for our team and in terms of the overall traction on that front. So obviously it has skewed the picture to that extent and therefore definitely the growth for traditional media or rather I would say the de-growth for traditional media will be in double digit for the full year.

Shikha Mehta: It will be in the range of 20% to 25%?

Hiren Gada: It is very early to, at this point, comment on that because as I mentioned during my opening comments that there has been an upturn in the sentiment and for how much of that gets translated to final closure of deal prior to this end of the financial year will be it is difficult to at this point.

Shikha Mehta: The amount you have invested in our new initiative so far this year has been around 15 crore, so is that's how it is going to be going forward sequentially or is that a bit skewed for the last 9 months and will be less going forward?

Hiren Gada: I think at least if you ask me the quarter run rate definitely we continue last quarter at least for this next quarter. Next financial year at this point I am not able to comment, but as I had said in my opening remarks is that we expect that most of them should turn or get through their investment phase in the next financial year.

Shikha Mehta: So when you say the quarterly run rate will continue you mean that of 7 crore or you mean 15 crore for 9 month that run rate?

Hiren Gada: No, I meant 7 crores, but to be honest it is very difficult at this point to give more specifics.

Kranti Gada : These are long term strategic initiatives and in the three to four quarters we will definitely invest to strengthen them so that you know contribute significantly.

Shikha Mehta: And can you give some details on what these initiatives are?

Hiren Gada: Well I have listed out a few of them in my opening comments like ShemarooMe, the devices business. So there are three, four different initiatives.

Shikha Mehta: Could you give some guidance on the ShemarooMe revenue?

Hiren Gada: As I have just mentioned to the previous question also is that at this point I am not in a position to give that.

Shikha Mehta: And could you give some the inventory breakup gross additions?

Hiren Gada: So the working capital which is inventory and receivables combined have actually been flat. Inventory have gone up marginally, but receivables have come off. So that is the overall picture versus September balance sheet.

Shikha Mehta: And could you give a cash flow from operations?

Hiren Gada: The cash flow from operations has been negative the exact picture I can note down and give you the figures we can give it a little later. This was said in the concall for the cashflows, maybe we can just say 'we can give you the exact figures a little later'.

Shikha Mehta: Okay and also could you comment on whether we are still maintaining IRR of 18% or when would you impact?

Hiren Gada: Just to clarify on the cash flow what I meant to say is that if we factor in this investment then with that the cash flow definitely would be negative how much it is I will be able to do, but it is suffice to say that if we look at the overall profitability picture net of the investments actually the EBITDA margins are fairly in line.

Shikha Mehta: So without the 7 crore investment your cash flows would be positive right?

Hiren Gada: I am not able to comment right now that is why I said that we will just give it a little later.

Shikha Mehta: And could you mention something on the IRR of 18% that we normally maintain, are we still maintaining that?

Hiren Gada: In our sales that we have booked this quarter at least we have maintained that as we had earlier discussed in Q1 that we had done a few low margin deals, but in this quarter at a portfolio level whatever we have done business it is at 18% benchmark.

Moderator: Sir we have Nishit Shah on the line.

Nishit Shah: So just wanted to know one more thing with respect to restaurants so we have opened two, three Cloud Kitchen in Bombay so what is the idea behind that and what kind of investment are we doing in that respect?

Hiren Gada: We shared this last quarter also is that the whole idea for us is, that, whatever we have for us everything is linked to Bollywood and how can we further monetize the content IPR library beyond just the traditional ways of monetizing it whether it is television or even the new emerging digital space and this is what we had looked at small experiments in terms of things that can we add a Bollywood aspect to like food and that was a thought that we had put across and to kind of put a different idea to this thing I mean we have been discussing with different players across different categories to see is there a licensing opportunity. So different kind of way how we can look at adding Bollywood to different day-to-day kind of categories or activities that we do.

Kranti Gada: This was like a proof of concept that we can showcase that we can actually add value to create differentiation for this industry and hence it was a small experiment that we are running.

Nishit Shah: Yeah, but going ahead what are the plans for this are we planning to invest more and what is the amount which is invested currently at this point of time?

Hiren Gada: All I can say is that the investment is miniscule and it is actually less than a crore and at this point the POC is still going on. We are experimenting with different assets in terms of the overall Bollywood experience and packaging things like that. So at this point the way forward has not yet been finalized for that.

Nishit Shah: Okay and how has the response been?

Hiren Gada: So, till now, actually the response has been extremely encouraging. The user comments are extremely good, user ratings on the platforms are phenomenally good, and the repeat orders are very good. So initial plan at least gave us a good confidence that there is a traction or people are connecting to the whole concept and Bollywood connect, but it is too early days and food is not a core business for us which is why even we are very cautious in terms of you know how we want to take it forward overall. So there are different possibilities in future, but right now it is too early to comment on any of that.

Nishit Shah: So, just wanted to know with respect to the preloaded speakers what are the volumes with respect to that?

Hiren Gada: Sorry I cannot say that due to strategic reason at this point.

Moderator: We have a question from Ishaan, an Individual Investor. Please go ahead.

Ishaan: What will be the strategy going ahead on content acquisition because of late the recent Bollywood releases which we have seen already are streaming tie ups with either Netflix or Amazon Prime, so going ahead what will be the strategy on content acquisition?

Hiren Gada: So as we in the past elaborated on the business model is that we typically come into the second monetization cycle of the business which is normally post the initial five to seven years of a movie release. So most of the current deals that we are seeing for new films will continue to be in that five to seven years period timeframe and therefore there is good availability of content

pipeline for content which has completed five to seven years of release. So to that extent I think we do not see that as a challenge.

Ishaan: So we will be buying this content after five to six years from these OTT players?

Hiren Gada: Our current strategy has been defined that in a second, third or later cycle is only when we enter, the content pre-release risk is something that we have been avoiding as much as possible and even per cycle risk or per cycle investment also is something that we have not been doing, but if you look at for example we watch a movie like Jab We Met or like Welcome, Golmaal Returns, etc. They were all bought in the second, third or subsequent cycle of monetization post their release. So that is really or has that has been the strategy or thought process for several years and that is kind of elaborate in the business model also.

Moderator: We have a next question from Mr. Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: May I know one thing on the traditional media side, we have been looking at various industries as well as within media companies like in print media and other sectors also, so obviously all of them have been affected, but nowhere I have seen more than 7%, 8% impact even on a YoY basis, and in your case this fall of almost 50% I think this is unprecedented, so what is the reason behind it? I mean, is it lack of execution? It sounds very scary since the revenues have come off by 50% while other companies are also facing challenges, but the degree of damage has been too much in our business?

Hiren Gada: I understand what you are saying and to an extent I would agree to that at least it seems quite a steep fall. Two things I would just say here, one is that the core fundamental, the core traditional media business which is the one we syndicate to basically the broadcaster which is a deal based business and therefore there is a certain amount of lumpiness in that business. Therefore, in the past I have said a quarter picture sometime may skew things around, but if you look at a Nine month period of a year or so that is when you get a better picture and this is what I have said in the past also. This is a deal based business where sometimes the large deal get postponed by couple of weeks it goes into the next quarter. So that is one of the aspects and other is that the for content investment, for many of the platforms has been definitely highly muted for multiple reasons and to some extent the movie category has got affected probably disproportionately is what I would also think. There is a third aspect also like in addition to the macro issues there were some micro sectoral issues also with some specific players. So it is difficult for me to elaborate player specific challenges, but I can say that some players were going through some mergers or those kind of things. So there were some slowdown even linked to those kind of issues.

Sarvesh Gupta: So second point is of course movie category getting disproportionately impacted during the slowdown, so can you quantify a bit as to what can be the spillovers or what can be the average revenues that you could have earned or can earn going forward in this business, what will be the normalized level of business in this quarter or coming quarter?

Hiren Gada: So as I had even mentioned in the previous quarter also is that we were hoping to have a year of de-growth by a single digit percentage and that was what we were kind of hoping. Now and if I have to even rewind back a little bit, over the last few years or quarter it is not the first time we are seeing a cyclical slowdown in the industry or business. Typically in the past the cyclical slowdown have lasted probably a few quarters and things have bounced back and moved on because as I said earlier also is that finally it is a consumable content. So the content period is getting consumed if I have licensed a five year period contract and if three, four quarters down the line your period is down to four years kind of a thing. So the pressure to replenish the library or invest kind of comes back immediately. This time, however, there have been multiple issues right from new tariff order and all which has kind of prolonged the whole cycle beyond what I think almost anyone could have probably imagined which includes a few sector related challenges also. So if I

were to combine that I think this quarter has definitely been slower than what all of us had anticipated and expected. So as I said as the outlook at the beginning of the year or I would not even say beginning of the year, but somewhere in the middle of the year definitely for us also was a negative single digit kind of a thing for traditional media.

Sarvesh Gupta: Yeah, but you know this quarter how much did we lose out on with regards to specific issues on the customer as well as some deals not happening within the quarter because of lumpiness, so can we expect a 75 crore quarter coming in Q4 because 100 has come down to 50. So what are the normalized earnings scenario right now given in this environment?

Hiren Gada: It is very difficult at this point to give you specifics, but as I said even in my opening comments that the sentiment has improved in the first few weeks and that we have seen that there is a level of query or conversations with different clients that is going on list, etc. So but how much again of that will actually close and translate in this financial by 31st March. It is too early days for me to comment on that.

Sarvesh Gupta: And can you comment on our working capital. So debtors would obviously come down in our business because the revenue has taken a huge betting, but can you tell me increase in your net inventory and debt?

Hiren Gada: Debt has gone up by around 20 crores, 22 to be more specific.

Sarvesh Gupta: Vis-à-vis September balance sheet?

Hiren Gada: From September balance sheet levels, so at September we were at around 214 Cr and now we are at 236 Cr.

Sarvesh Gupta: So here again the question is if we are not able to sell as fast then why are we continuing with our inventory purchase? Why not just probably sell what we have right now?

Hiren Gada: So, one more aspect to it is what that we did for example was the Marathi channel launch. So to that extent we held back some of the inventory as well as we invested further in that to make it a complete offering for the Marathi movie channel. So part of the inventory addition is also to fuel some of these new initiatives that we have taken.

Sarvesh Gupta: And now you know coming to the issue of this the share price which is getting battered everyday so my only suggestion is that now promoter should try to give some confidence to the markets by either coming in and buying from the open market or you guys doing the rights issue. The details of expenses that you have given that is good, but against that, What is the revenues that we are going to have, Can you give some more details, I also think it is high time that you guys are enthusiastic about the prospects going forward and that has to be shown with money on the table in some way.

Hiren Gada: I will note down your suggestion because at this point I am not able to comment beyond that on that aspect.

Moderator: We have a question from Mr. Yogesh Kirve. Please go ahead.

Yogesh Kirve: So sir can you share some key thoughts beyond launching the Marathi movie channel, so it sounds amongst the boldest move towards the B2C business to be shared what is the thinking behind it and what are our ambitions in this space?

Hiren Gada: So as I said in my opening comments also that we do have a good regional content library overall and we saw that there is an opportunity existing in this space because the ad pie for Marathi is between 800 to 1,000 crore estimated based on various industry estimates as well as reports that we have gone through. So it is estimated to be 800 to 1,000 crores and we thought

that it is a good opportunity to actually entrench ourselves deeper and hence expand the distribution and monetization of the existing Marathi title and therefore we launched a free-to-air Marathi movie satellite channel which was just launched and is still getting distributed it is available on DD Free Dish, Tata Sky etc and cable operator at this point and that distribution is expanding.

Yogesh Kirve: So can you give us some idea about this scale of investment and do we see some material impact on your margin going ahead on back of this product or cost would be under control?

Hiren Gada: Sorry I did not follow the question can you just repeat it.

Yogesh Kirve: So just wanted to have some idea about the scope of investment in the Marathi movie channel, would that be a drag on the margins or be a material drag on margins going ahead at least for couple of days?

Hiren Gada: Well, at this point I am not able to share more details on this beyond the fact that we are definitely hopeful that and we have confidence that this will in a fairly short time should get at least contributing to the overall margins.

Yogesh Kirve: Sir in a second quarter we eluded to certain major projects that we are considering and that was one of the reasons why we were looking for this capital issue, so was this related to the Marathi channel or is there something else which is a showroom under the sedation?

Hiren Gada: This definitely was one of the projects that we have worked out as I said this overall ad pie in Marathi space, the opportunity is pretty interesting as we have content. There is distribution available. Yes there are cost, but this is helping us build traction as you said in the B2C space also. So definitely this was one of the projects which we were eluding to.

Moderator: We have a question from Mr. Nimish Desai from Kitara Capital. Please go ahead.

Nimish Desai: Actually shocking to see traditional media numbers, but my question is moreover a structured part that, Is this impact because there is a structural change by the FMCG or the advertisers to shift from traditional media to digital media because the catchment area or direct advertisement is more on that segment and hence this will always be lower henceforth going ahead?

Hiren Gada: No, absolutely not and we have gone through, I mean we have met agencies, we met advertisers, we met many people and in fact a very interesting industry event also happened a couple of weeks back where virtually every segment of the ecosystem had one voice that television has much longer legs and shelf life than what is currently being even projected. In fact just to give a different view, I mean you look at even USA in spite of all the digital on slot, still television has not de-grown significantly. It is actually a cash cow for most of the players. So we are still far behind on that about television and at this point it continues to attract more than 90% of the video consumption in India. So there is no doubt that you know ad money is following that and at this point that is if I have to put it, it is not even a question in that sir.

Nimish Desai: Another question arises is that so, if they have not moved out of television and we have seen not such a big drop among the other players or even the earlier participants said that there is 8% to 10% drop in overall business. So then are they choosing a fresh content and not our content to advertise more, is that the shift?

Kranti Gada: Most TV advertising is very scientific, and it is led by GRP and movie category continues to enjoy good GRP. There is no redistribution of GRP to that extent amongst content categories over there.

Nimish Desai: Among movie category is it that more are going towards the fresh content and less towards the second cycle third cycle content?

Kranti Gada: Actually we continue to track our own movies and we have distributed in the past also, we track them regularly and they continue to deliver very healthy GRP.

Nimish Desai: You do not see that shift basically?

Hiren Gada: No. So what would happen is that tactically in a couple of quarters where someone may accelerate spending more on new films and go slow on catalogues because it is a very competitive and dynamic situation and ratings is the Bible or the kind of holy grail for ad revenues. So, to that extent in the race for rating everyone kind of just tries to outdo each other and everyone changes strategies virtually on a quarterly basis or a six monthly basis typically. So sometimes someone could get more aggressive on new films and people who have investment in library or vice-versa also. This is nothing new in that sense.

Nimish Desai: On the MarathiBana Channel you said that there is a visibility of 800 to 1,000 crore ad spent on that?

Hiren Gada: In the Marathi category. Since the question was on what is that thought process and 800 to 1,000 crore is not the potential, but we said the ad pie for Marathi is 800 to 1,000 crore market and we have only one player there and we are aspiring to be one more participant who will kind of take a revenue out of that pie.

Nimish Desai: So this is a new initiative and are we going to stop on Marathi FTA channel or because we have a library of Hindi movies as well right so why not also launch Hindi or is there any plan to do that?

Hiren Gada: Well at this point I am not able to comment, but if at all there is something that comes up we will definitely update on any other channel launch, but Marathi I mean definitely we saw an opportunity so Maharashtra overall is a state which has a good size population and good paying population in terms of consumer goods it is a good consumption market for FMCG consumer durable various categories. So therefore the ad pie is quite an interesting number and it was synergized well with our own content library.

Kranti Gada: As well as the understanding of the consumer content consumption for this market.

Nimish Desai: And just lastly on the preloaded speakers the revenues are a part of new media right?

Hiren Gada: No it is part of traditional media.

Nimish Desai: If we less this revenue than we are further down initial?

Hiren Gada: I would not actually look at it that way because to that extent I mean right now as I said also earlier the distribution expansion is happening still so it is early days the numbers are that not significant in that sense and to that extent there is contribution on digital media also from some of the newer initiative like ShemarooMe.

Nimish Desai: And on CAPEX did we do any CAPEX in last quarter in the library or it just went into new initiatives?

Hiren Gada: Definitely we did for library as well. As I said to the earlier caller also is that some part of it for example for MarathiBana we held on to some library deals or some content deals that were otherwise in discussion. So we definitely held on to it and secondly on to it and secondly we further added or replenished I would not say replenished, but we kind of whatever from a programming point of view who are missing pieces we kind of invested in adding that content.

Nimish Desai: We have moved to 25% tax break?

Hiren Gada: Yes.

Moderator: We have a question from Mr. Ankit Gupta from IndiaNivesh PMS. Please go ahead.

Ankit Gupta: While our core business is de-growing and our inventory level is at all time high and our debt level is at time high, it presents a very scary situation as we are continuously investing in our new initiatives whereas our core business which is a traditional business has been de-growing substantially with a huge amount of debt pile and inventory pile on our balance sheets, so what is the visibility of revival and cash flows coming back and we being able to deliver or do justice to our investments?

Hiren Gada: Let me explain this in a slightly different way firstly if we net off overall earnings from the investments that we have done actually the margins are continuing to remain in line. So the core operational business actually continuous to do well and delivers those kind of margins and cash flows; so that is a very important aspect. So in that sense there is no challenging situation or you know revival kind of question. Yes, the question is that traditional media is in a cyclical downturn. There has been a slowdown in investments from our clients for last couple of quarters. We hope that as I have said earlier also that with few of the sector related or even macro challenges as and when they get addressed we are fairly confident of those kind of coming back and secondly the new investment have all being made with wealth I doubt strategic thought process and the year has been an investment year for us and we are expecting that they will bear fruit in the next year or two. So in that sense I do not see that as any challenge.

Ankit Gupta: So I appreciate that there are no margin challenges in your core business, but I was more hinting towards your inventory consumption during this year or this quarter in particular?

Hiren Gada: So if my sale is down obviously that inventory is still on, I am carrying that inventory. Now if that same thing is if that revenue would have materialized to that extent the inventory would have come off by that much amount and right now that has not happened that is what I was eluding to.

Ankit Gupta: So when can we see this inventory consumption taking place that was the question and I mean we can always have a waiting time period for that, but since it was more dependent like our majority of our business is coming from four or five large clients on the broadcasting side, so can you help us in understanding a convincing reason for slowdown in offtake of new content by our clients?

Hiren Gada: No I just explained earlier right if for example if their respective ad revenues are down obviously it will impact content investments and that is what has happened that is the reason for the slowdown in the content investment that all of them have had and there have been a few sectoral challenges also which are player specific I cannot elude towards any single player what kind of challenges they may have gone through, but there have been those kind of challenges also. So it is a combination, so it is a combination of all of that has led to this slowdown.

Ankit Gupta: My last question would be that since we are facing business challenges in our core business I mean would it not have made sense to step back a bit on our new investments and the new initiatives which we have taken because we have opened lot of fronts in terms of few like a channel and B2C businesses like ShemarooMe, a merchandize business, the food service business which require different competence and different bandwidth to manage all these businesses.

Hiren Gada: So I agree with you and to that extent in fact which I said also in my opening comments which is that we have taken various organization and cost rationalization measures to offset this impact. However, there are some strategic initiatives which we feel strongly about and continue to

strategically invest, but still cautiously invest because we are confident of those respective initiatives and the business model around them and some of them were already at a certain level of motion. So you have to I mean for example the ShemarooMe it is taking capital but should I shut it, you know I have to go through that whole thing to see through and it is in a sector which is proving the underlying consumption trends are good, distribution tie ups are we have a reasonable set of distribution tie ups they are more are falling in place. Now should I shut it and it is an important thing if I take a three to five year view I mean I am not trying to provoke you in that question I am just saying this is a question for me myself also that how we should think about some of these initiatives. So therefore what we did is that took a hard look at some of these we have in fact rationalize many of these we have undertaken some cost rationalization measures. We have for example in terms of number of people headcount I can say that for next at least year or so we have it is definitely on a downward trend. We have let go of some people; we have kind of so that impact will be visible in the next couple of quarters overall on these numbers. We, however, some of these initiatives do require more specialized people in fact we have reallocated some of the teams to some of the newer initiative also. So there has been whole lot of churn which I initially alluded to in my opening remarks that you have taken various organization and cost rationalization measures in order to offset the impact. So that goes without saying I think that something that we have done for last few months and to that extent definitely we are seeing savings etcetera from those.

Ankit Gupta: Sir I appreciate that on operational side you are taking steps and you are realizing that there is a need of reorganization and resizing of organization in particular, but on the capital side do you have any thoughts that because most of the new investment that are on the content side or on the new initiatives or on both sides it is the financed by debt which is all the most scary and all the more worrisome for minority shareholder like us?

Hiren Gada: I would not say that it is entirely the picture because there are internal accruals which are also going into funding most of these initiatives we have kind of tried to maintain a 50-50 of internal accruals and debt at this point in time to fund this and based on visibility of internal accruals may kind of rolled out the next phase of investment in most of the initiatives. I would not say that it is not something that has been and plus I will each investment has its own path and some of these are actually pretty small investments with a good potential.

Ankit Gupta: So I agree but the bigger thing is that if the slowdown prolongs and so we should not get into some kind of a liquidity challenge or which might have a bearing on the long term growth prospect of our core business?

Hiren Gada: The way we have at least internally thought about it is that at this point we have internally at least ring fenced all our core business cash flow needs in terms of liquidity and it is only additional generation only right now that we have been kind of sort of investing. So that has been a clear thought process for us because then we know that only what is generated over and above that is something that is doing in for the investment.

Moderator: We have a question from Mr. Tanmay Patel from Ind Asia. Please go ahead.

Tanmay Patel: Sir, you have already mentioned that you know why there has been drop in revenues, but if you can tell us what are your plans to monetize your inventory going forward because considering you have said that the cyclical issues and there are some industry related tariff issues, so if you could just give us some sense how do you plan to monetize your inventory going forward?

Hiren Gada: No ultimately so there are two things one is the digital media if you see has been going pretty well and we in fact on syndication side, on YouTube side or many of these aspects. So the original thought process or the investment which was to fuel the digital business also that in a way is playing out it is the de-growth of the traditional media which has kind of given a different color to the overall outcome or the overall picture, but if you see through that so that is something that continuous and that an important core monetization which is happening literally on a monthly

and quarterly basis because consumption is happening on a daily basis whether it is a YouTube or any of these platforms or consumptions it continues to happen on a daily basis. Now coming on the traditional media side there, that this has been a rare occurrence that we have seen that this slowdown has been so severe or so prolonged rather or a combination of both. If you ask me at whatever point the business kind of picks up I think there should be a decent deal flow available to monetize. We have marquee content, we have a very formidable and as Kranti earlier mentioned library which rates very well on the television platform. So I do not see any challenge on that at all. So on that front I think we are confident that it will get so what is that pickup point at this point is difficult to pinpoint, but once that happens I think we should be in fairly good state.

Moderator: We have a question from Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: My questions have been answered.

Moderator: We have Mr. Ishaan Kavish. Please go ahead.

Ishaan Kavish: You spoke something on resizing of human resource but an employee cost has approximately increased by 35% or 36%, so can you please comment something on that on a 9 month basis is what I am talking about?

Hiren Gada: As I said earlier that the measures have been taken during this quarter. So by the time we the employees kind of finished their full and final settlement etcetera we are already into December and January. So a better impact of that will be visible in the current quarter.

Ishaan Kavish: So what will be the quarterly run rate sir?

Hiren Gada: There are two things as I said earlier also that there are one is in terms of the headcount will be probably dropping by about 3% to 5% overall which so overall headcount maybe dropping by about 10%, but there are some replacement we would make for a newer initiative. So net of that probably 5-ish percent the headcount would be dropping, and I think therefore in annualize impact of that should be again in similar range. Now from when it will kick in will depend on when many of these full and final settlement or notice period etcetera kind of get done.

Moderator: There are no questions in the queue sir. Mr. Gada any closing comments sir.

Hiren Gada: Thank you everyone for joining in and being part of the call and I will just conclude by repeating what I said in my opening remarks that the management would like to assure you that we are very attune to the headwinds facing the sector currently and everyone in the company is working diligently to counter this and we are confident that in the long run our overall strategic initiative will bare fruitful outcomes. Thank you very much.

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