

Shemaroo Entertainment Limited
H1/Q2-FY21 Results Conference Call
(November 10, 2020)

Moderator: Ladies and gentlemen, good afternoon. And welcome to Shemaroo Entertainment Limited Q2 FY 2021 Results Call, organized by Batliwala & Karani Securities India Private Limited. At this moment, all participants are in a listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press "*" and "1". I would now like to turn the conference over to Mr. Yogesh Kirve. Thank you and over to you, sir.

Yogesh Kirve: Thank you, Yashshree. Good afternoon to all the participants and thank you for joining in. We at Batliwala & Karani Securities are pleased to host this earnings call for Shemaroo Entertainment. To discuss the results and the business outlook we have the senior management of the company represented by Mr. Hiren Gada – CEO & CFO, and Mr. Kranti Gada – Chief Operating Officer. I will now hand over the call to Mr. Gada for his opening remarks, which will be followed by question and answer session. Over to you, sir.

Hiren Gada: Thank you, Yogesh. Hello, good afternoon, everyone. And thanks for joining our H1 Q2 FY 2021 Earnings Conference Call. Before starting, I hope everyone is keeping safe and healthy. And I wish the best for you and your family. Let me start by giving you the key highlights for the quarter and for the first half year ended September 30, 2020.

For the second quarter ended financial year 2020-2021, operational income was Rs. 59 crores, EBITDA for the quarter was Rs. (-72 lakhs) and we had a loss after tax of Rs. 9 crores. For the first half of the financial year ended September 2020, operational income was Rs. 146 crores, there was an EBITDA loss of Rs. 6 crores and a loss after tax of Rs. 22 crores. As most of you are aware, the company has been in an investment mode in various new initiatives, which are yet to mature and add to the financial performance of the company. Hence, it is important to note the expenses made on these new initiatives net of revenue for the periods under review. For Q2 FY 2021, it was Rs. 15 crores and for H1 FY 2021 it was Rs. 29 crores. If you were to exclude these investments in new initiatives, the EBITDA from existing operations was actually positive Rs. 14 crores for Q2 and positive Rs. 23 crores for H1 FY 2021.

For the second quarter, digital media revenues stood at around Rs. 39 crores and has declined by about 30% on a year-on-year basis. And for the half year ended, digital media revenue stood at Rs. 73 crores, which has declined by around 30% on a year-on-year basis. Traditional media which has borne the maximum brunt of the COVID lockdown, for this quarter stood at Rs. 21 crores which is a decline of 79% on a year-on-year basis. And for the half year ended, it stood at Rs. 73 crores, which is a decline of 62% on a year-on-year basis. With consumption showing some green shoots, advertising spends have started picking up. Major events like IPL and with the festive season around, advertising spends are expected to come back to pre-COVID levels in the coming period.

In the traditional media business, some deferred acquisition, content acquisition deals continue to put pressure on the top-line. However, continued cost rationalization efforts in the last four quarters began to start contributing to the company's operational margins and cash flows. We continue to strategically yet cautiously invest in our future as we remain confident of our business model. We are trying to transition and evolve from a B2B company to a B2C operating model. And we are currently building our investments which are going to be the foundations for an accelerated growth for our future.

During the quarter, the company continued its focus on its two broadcasting channels, namely Shemaroo TV and Shemaroo Marathi Bana, to strengthen their viewership and reach. Shemaroo Marathi Bana was consistently among the top six Marathi channels, and we began monetization

of this channel through advertisements during the last quarter. Marathi category, just to remind everyone, Marathi category enjoys an estimated ad revenue pie annually of around Rs. 800 crores. In case of Shemaroo TV, we focused on increasing its reach by closing on key distribution partnerships to strengthen the viewership and reach, both. Again, to remind everyone, the overall Hindi general entertainment category enjoys an estimated ad revenue by pie of around Rs. 7,000 crores to Rs. 8,000 crores. And we plan to capture a small part of that existing pie. This broadcasting business initiative shall reap benefits with the existing companies with our existing strength basically. This is one of our efforts to come closer to the Indian audiences and the proposition to vertically integrate our business models.

On the digital side, our performance on YouTube continues to grow well. Shemaroo Filmy Gane has crossed 40 million subscribers during the last quarter, enhancing our overall digital presence. We had launched Shemaroo Me in February 2019, which is a subscription based OTT digital platform, working primarily on a B2B2C partnership based model. In the current quarter ended September 2020, we have entered into partnership with JioTV+ app and Shemaroo Me is now available on Jio Fiber network as well as on the Jio Cinema for the mobile users. In addition to that, Shemaroo Me app has been made available on Sony Bravia television. And we have also partnered with Telkom Indonesia to tap into their subscriber base. The traction on this platform so far has been encouraging.

Shemaroo Me has been made available across 150 countries. We also launched a feature called Shemaroo Me Box Office, where new small budget movies can be watched by buying tickets through ticket aggregating platform Book My Show. This is more a transaction video on demand model. As our core strength is in enhancing monetization of our intellectual property rights. All these new initiatives like broadcasting business and Shemaroo Me has a sole proposition of generating new and stronger means for monetizing the content.

Lastly, in conclusion, we are definitely seeing a revival in the ad spends in the sector, and hope that the momentum continues in the festival season and beyond as the lockdown gets lifted slowly. Our cost optimization efforts have borne fruit this quarter, and let me assure you that everyone in the company is working diligently to boost the business. And we are confident that in the long run our overall strategic initiative will bear fruitful outcome. Now I open the floor for questions.

Moderator: Certainly sir. Ladies and gentlemen, we will now begin the question and answer session. We have a question from Prasanna from Rippling. Please go ahead.

Prasanna: So, if you look at the inventory, sir, in the last conference call as well shareholders asked, basically the inventory is working less and less, if you look at not the COVID trend but the seven year trend, revenue per unit of inventory or like gross profit per unit of inventory has been declining for a while. And this quarter, it sort of comes to the fore, like for example, the biggest cost, which is the cost of materials consumed, has fallen a lot, even though we are carrying the same inventory, obviously, we expense it only when the inventory gets sold, and therefore, if there is no sales then we don't expense it against the revenue. But it looks like a lot of inventory is just getting accumulated. And I know that we used to have like an 18 month inventory write-off policy, so when do we actually sort of like, right now, our inventory is holding say something ridiculous, like Rs. 750 crores or something, which is clearly not really market value. So when do we think the accounting entries will sort of coincide with market value and we would actually take the real write-offs? Thank you.

Hiren Gada: Actually, the question on what is the market value is an open question. And given the strength of the underlying content, of course, the jury is out there, but I would believe that actually the inventory has substantial value in it. And the challenge has been, obviously, that because of COVID the purchases of movie channels have kind of been put on hold for almost three quarters now, or a little bit more than that, actually. And that's really what has been the challenge. It doesn't mean that the value of that inventory has gone down. It's just that because right now the cash flows have been tepid, so unless and until we really don't restart on the sales side, it's difficult

to today say where the pricing would settle. But all I can say is that, definitely, the inventory has a substantial value to it. So I think we will continue to follow the policy that we have been following. And for any rights that has commenced, for 18 months if it is not sold, it would get charged off.

Prasanna: Got it, sir. So the 18 month write-off thing seems a little peculiar, given that the inventory has not really been working as hard over the years. We brought it up in the last shareholders meeting as well and you mentioned that, like if you take one year forward or something, because you hold inventory for a while, things might normalize but it doesn't actually. So, I don't know if you have any comments on that, like my understanding is, basically there is a significant portion of the inventory...

Hiren Gada: I actually don't agree with that. Two things I want to say here, actually, if you see the GP margin of even for the current quarter, it is very healthy. Because if you, in fact, if we net off the investment that has been made, the EBITDA margin itself is at around 23%. So there is a healthy GP margin, which kind of indicates that the realizations on whatever revenues have happened is held on and is decent.

Prasanna: Yes, that's true. So the GP margin trend has been upwards over the years?

Hiren Gada: So therefore, what I am saying is that we are in an extraordinary situation where the overall ad revenue for the media industry has taken a severe beating for the last almost eight to 10 months. And as a result of which, the content investment impact has happened, which in a way doesn't really mean that when the investments restart, I mean, at this point we don't know whether at all it will have any impact on pricing. And secondly, how much impact it would have on pricing. And the reason being, and something which I said last time also is that, what is happening in the interim is that the channel needs content, right, and it is consuming period right now, but it's not investing in fresh content. So at some point their libraries start expiring and the content availability keeps start to reducing for the broadcaster. And that is a time they obviously need to replenish, so that need for replenishment is on a continuous basis, it's because of an extraordinary year that this is a case. But otherwise, we have been able to generate the IRR. And in fact, if you actually see the numbers for last several years, the IRR has actually been generated on EBITDA level based on the investments. So that is not an issue at all.

Prasanna: So the peculiar thing is, the GP margin has been increasing, as you are mentioning over the last few years except for the COVID 2019-2020, so that's not a concern. The only issue is, the portion of the inventory that is being expensed in the P&L keeps reducing, so there is more and more and more of inventory. And the portion of that that's actually been...

Hiren Gada: No, I don't agree with that. Basically what has been happening till now is that we have been buying more than we have been selling, which is an overall library buildup and inventory, and that has been a conscious investment. Secondly, for the last year or so, whatever some of the investment or some of the addition that you are seeing is also on account of the broadcast business. So there is a certain amount of inventory that has been built or even retained. So some movies, etc., we have not sold because we wanted to keep it exclusively for our channel. So that kind of issue has also been there. But if you take that off, then as per our policy whatever we have been selling we have been expensing out. It is just that, let's understand one thing, the digital and overall media industry is on the threshold of a growth period, and notwithstanding the COVID impact which has been very unfortunate for our industry. But otherwise, for an economy like India, which is a largely consumption based economy, media actually grows faster than the GDP growth, because there is a large spend on marketing advertising by various consumer brands that need to make awareness of their product. And that has been the driver for media industry for years. And that will continue to be, because new and new products and categories come. So with that in mind, the investment that has been made over the last few years has been with that. So, I don't see that as a challenge right now.

Prasanna: Got it. What is your expensing policy on that front? Like the media that you would yourself consume and don't ever sell, when would you expense that?

Hiren Gada: Actually, it's there on our website, you can refer to it on our presentation. Because, I hope you can understand that the current call is really related to the quarter and half year's performance, we can have a separate discussion on this or a team can explain to you the expense policy. There is no issue at all on that.

Moderator: Thank you, Mr. Prasanna. We have a question from Deepandar Singla, an individual investor. Please go ahead, sir.

Deepandar Singla: Sir, my first question is, like on YouTube subscription and views, we are still seeing healthy growth. So if you can tell me like what percentage of revenue comes from the YouTube this quarter?

Hiren Gada: Yes. So roughly, overall YouTube used to be, in fact, at somewhere less than 25%, but now YouTube share has gone up. And telecom, which used to be upwards of 50% has now gone below 20%. In fact, in this quarter, it's actually below 10% of the total, because the telecom business has seen a severe beating. Or I wouldn't call it a severe beating, it's a shift from the business model of traditional VAS, which was a feature phone product to a smartphone product, which is Shemaroo Me OTT kind of a thing. And I am saying the percentage of breakup of the revenue. So YouTube is now probably in the range of around between 40% and 50% of the digital revenue and telecom is about 10%, and the rest is a combination of syndication and Shemaroo Me.

Deepandar Singla: Got it. And sir, digital revenue is like 60%, 70% of current revenue, total revenue this quarter?

Hiren Gada: As far as this quarter is concerned, but I would take this quarter as an aberration because the major impact of the COVID has been on TV advertising etc., which has caused the traditional media revenue to actually come off. I don't see that still as a long-term trend, my own sense is that digital would probably remain or on a normalized basis if you were to think digital should be between 30% and 40% of the total revenue on a steady state kind of a basis.

Deepandar Singla: And what is our, basically, like as we can see on the presentation, we have started generating some revenue from our Marathi channel. Like what kind of numbers are we seeing there? Like, I know, this is just the start and the channel will grow more.

Hiren Gada: Actually, I am not in a position to share that. But all I can say is that, it's a decent beginning, we are, I would say, fairly in line with our internal projections.

Deepandar Singla: Maybe you can tell me the growth you are seeing, like maybe monthly or quarterly like, because you are already now...

Hiren Gada: Let me say it in a different way, the two new initiatives that we are currently investing in, the overall top-line of those initiatives is probably in the range of about 10% of our overall total top-line.

Deepandar Singla: Okay. And this includes like partnering with Jio and all those things also?

Hiren Gada: No.

Deepandar Singla: So this is just TV channel basically?

Hiren Gada: So there are three, four new initiative, TV is obviously the largest part within that.

Deepandar Singla: Got it. Sir, like basically at the start of your presentation you talked about we partnered with Jio Cinema and Jio TV and doing this thing with Book my Show. Sir, all these models are, like, basically these companies pay us something on front or like it is more like the viewer get to subscribe to our channel and then only we get paid?

Hiren Gada: So I have not in a position to talk about specific transactions, but in general there are, I mean, if you really break it up, there are essentially three types of models. There is a fixed fee model on one end of the spectrum and on the other end of the spectrum there's a pure revenue share or a variable model. And then in between, there would be a minimum guarantee and a profit sharing or a revenue upside sharing kind of model. And unfortunately, due to confidentiality issues I am not able to discuss specific deals, but what I can say is that depending on platform to platform we have different kind of models.

Moderator: The line is disconnected. We will take the next question till then. We have a question from Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I just had a couple of questions. What approximately would be the payback period for our new initiatives?

Hiren Gada: We are hoping that television business payback should be within about three years end to end. And I mean, each business, in fact, on a continual basis the internal target, obviously, is that it should be generating an IRR which is higher than what our overall target IRR is. And the other businesses, each have their own trajectory. But this being a large initial initiative and investment, I think, this would be, yeah.

Shikha Mehta: And sir, in our related party transactions that we have shared on the exchange, there are almost Rs. 30 crores of loans which the promoters have given to the company. So, are we looking at equity infusion or something of that sort, anytime going forward?

Hiren Gada: At this point, I am not in a position to comment on whether the promoters will be putting in equity contribution or not. But the promoters probably believe in this business, they are backing the business completely. So they have infused debt into the company. In fact, as a promoter group has not sold or pledged any shares of the company at all in this entire listing history. So that's something that that promoters are strongly committed and believe in the future and business model of the company.

Shikha Mehta: Right. Sir, our Marathi channel is part of the top six Marathi channels. So can you give us some sort of idea on like what percentage of ad spend would Shemaroo get out of the total Marathi ad spend?

Hiren Gada: See, which is why as I said even on the previous question that I am not able to give individual numbers right now, but the two that I gave, one is that the Marathi category is estimated at around Rs. 800-odd crores in terms of the ad revenue. And within that, essentially, there are, at a broad level, three category, there is a general entertainment channel, there is a film channel and then there are news channels. So, obviously, the general entertainment category takes has a higher viewership and takes in a larger part of the revenue. But being in the top six in the entertainment category, overall, obviously, has its own revenue implication. And we, I think, are moving towards getting our fair share of revenue, not yet there but hopefully in the next few months we should be there.

Shikha Mehta: But would, let's say, 10%, 15% be a plausible target or is it going to be lower than that or higher than that?

Hiren Gada: At sixth rank, having 10%, 15% is not possible. I mean, 15%, definitely not. I mean, right now it is very difficult to put a number, but 15% definitely for number six is not...

Moderator: Thank you. We have a question from Mr. Yogesh Shah from YBS Capital Advisors. Please go ahead.

Yogesh Shah: My question is, since we are also on the OTT platform, any probability for any merger or some kind of transactions or some JV or partnership with other media houses or interactive media houses?

Hiren Gada: I cannot comment on that. All I can say is that, at this point, there is no such conversation. If there is something we will inform everyone.

Moderator: Thank you. We have a question from Mr. Prasanna from Rippling. Please go ahead.

Prasanna: Sir, so in the Marathi channel, it looks like the weekly impressions when we launched in March was like 1 lakh, then recently in October it has fallen to like around 30,000. So it looks like you have been continually losing market share. Any colour on why that's the case and perhaps the future health of the channel?

Hiren Gada: Sure. Yes, it has fallen, but there are two reasons for that, when we launched the general entertainment channels had stopped fresh programming, so the viewership shifted to the movie category at that time. And also, there was the whole lockdown impact were staying at home people had additional content. So, TV consumption during lockdown had gone up by more than 40% during the lockdown stage. And if you add to that the fact that general entertainment channels were not producing fresh content, the audience shifted significantly to a movie category where at least there was a rotation of content happening. And that was reflected in the numbers at that time also, in fact, at that point, in some period we were probably doing more GRPs than channels like, say, Star Pravah or those kinds of channels also, which today Star Pravah is a leading channel in the category. So, once the fresh programming started, this correction kind of came back. Plus, we now have a decent unlock happening. There is also a third factor of IPL, so we are hoping that IPL takes away a lot of primetime viewership, so we are hoping that today being the last day of IPL, once IPL is done there will be a marginal increase in that. So, net, net, I think we were, I would say, at that point probably a beneficiary of the whole lockdown this thing. But as the things settled down, I think things have kind of come in into a normalized trajectory.

Prasanna: Got it. And then long tail channels, like if you are really low in the popularity list, my understanding is very hard to be profitable in TV. Like, how much consolidation sort of do you see in this sector? And like, beyond what position is the breakeven just like really hard?

Hiren Gada: So, we need to see fundamentally there are two or three categories, which are mass popular category. So, general entertainment is one, movies is another one, they are too mass popular categories, so they will always have a certain viewership and a certain advertising revenue pie. There are certain niche categories, I wouldn't call it long tail but I would call niche categories, which probably have a challenge on the advertising side. Like to give you an example, recently Warner Brothers, Warner Media has announced that they will be shutting two English channels. Now, English is a category which has been challenged by viewership and advertising. And those are the kind of categories this thing. So it more, probably at this point goes with their category level kind of a thing. We are in a category, I think, the top couple of players always have an opportunity to take up viewership, and therefore revenue.

Prasanna: Got it. Does it mean like after four or five it's very hard to sort of be profitable and stick around for the long-term?

Hiren Gada: I don't think so. I mean, for the longest time, if you see general entertainment category, there are just about 14, 15 channels, and all have been around for years and years. If you see the movie category, in fact, movie category has seen a huge influx of many newer channels. But typically, if you see, the larger broadcasting houses, broadcast networks, no one

has shut their channel. So there are at least about 15 to 18 prominent movie channels, and unless they are making money, they would not be sustaining for such a long period, right. So, as I said, again, general entertainment and movie categories are fairly mass categories, the viewership as well as the revenue pie for both of these are significant.

Moderator: Thank you. We have a question from Mr. Dipendra. Please go ahead, sir.

Dipendra: Sir, my first question is like, we are doing a lot of new initiative right now, basically. When you see like world is coming to a new normal, as you can see like vaccines and all are coming, when do you see company will start reporting a healthy PAT of, again, Rs. 19 crores to Rs. 20 crores? And then like in how many quarters or maybe months, a rough estimate?

Hiren Gada: See, I am unable to give you a forward-looking guidance on that. All I can say is that we have started the monetization path. See, television is a slightly long gestation period. Obviously, the challenge of COVID added to the overall challenge. But I think we have started monetization and I am confident that this project would start to contribute pretty well over the next couple of quarters. And once that is done, I think we should be okay. Because if you net it off, the rest of the operational businesses are doing okay. One unknown as of now, still I would add here, is the whole television syndication. Because as we saw that on most for last three quarters television channels buying has been low key. I am hopeful that next calendar year, I mean, so a lot will depend on how this advertising season goes for the festival and all of that. But next calendar year, we should start seeing at least some revival and hopefully next financial year should be a better trend for that part. So overall, I am not able to give a guidance on the company. But these are segment wise or revenue wise I have kind of shared. Digital has seen very good consumption growth, again, had a challenge of advertising. But digital advertising is something we have already seen the revival and there is a decent outlook for digital advertising for the next few quarters.

Dipendra: So like, are we thinking to take more debt to basically sustain ourselves as we move forward?

Hiren Gada: The intent is obviously not that, and we have been managing, and in fact last quarter also I have shared that. So our current debt equity for the current period is 0.47. And my own sense is, we really don't have the intent to take it significantly higher. Some amount of investment that we still may need to put in for the new initiatives may get in, but there has been a healthy cash flow generation from the operational businesses. In fact, we have like not availed of any moratorium, all our servicing on banks, etc., has been completely on track, like, so for example, salaries, etc., we have not actually. So while we in the past have reduced our headcount, but we have not actually reduced salaries of our staff. And all of that has been completely been paid as for the regular timings and cycle. So, in that sense, there is a healthy cash flow generation that is happening. Yes, there is an investment and it may need a certain amount of debt funding, but as I said, I don't see that gearing to go beyond 0.6 debt-to-equity. In fact, I don't think that much should be needed also. I would say, we are slowly nearing the end of this investment, particularly on the tech television side.

Dipendra: Got it. Sir, like, I am just basically thinking from a long-term shareholder of the company, like will not promoter buying some shares introduce a confident measure in the market as share has taken a lot of beating right now.

Hiren Gada: Well, I am not able to comment on behalf of the promoters in terms of what is their intent to buy. So sorry, I am not able to reply on that one.

Moderator: We have a question from Mr. Ramakrishnan, an individual investor. Please go ahead.

Ramakrishnan: Sir, we have a consolidated debt, long-term debt of Rs. 20 crores and total Rs. 238 crores of short-term borrowings. And can you throw some light on the inventory we have?

Showing here is a Rs. 743 crores of inventory for the half year, which has gone up by Rs. 30 crores. And this debt, you were saying that the debt may go up a little bit, so by when you are looking at reducing the debt?

Hiren Gada: Okay. So, as I understand, so on the debt as I was saying that further operational business at this point we don't need debt, we are actually generating positive cash flow. It is for the investment, the net amount that net of the internal accruals, whatever is still the difference is only what we are raising through debt. And if you see that amount also, over the last two quarters, it has come down steadily. And as the television channels start to generate revenue, I am hoping that over the next couple of quarters, that additional amount needed should significantly come down. And which is why what I said is that there is a marginal amount of additional debt that may be taken, but not anything significant.

Ramakrishnan: Can you throw some light on the inventory, the Rs. 743 crores inventory in the size of our company, it is huge. So, it's a content or music rights or a content, what some brief breakup if you can give?

Hiren Gada: Primarily, it is a film copyright across the various categories of the library that we have, which is Hindi films, regional films, other non-film content, as well as some of that, particularly what has been added over the last few quarters has been related to the project, the TV project content that has been added. And now we are planning to monetize this, because the size of your company, this is a huge investment.

Hiren Gada: So this was, in fact, the exact discussion that we had with the previous caller, but I will just give a broad sense. There are essentially three or four different ways in which the inventory is getting monetized, one is the digital monetization across all the platforms. Second is on television side there are two parts, one is where we syndicate it to where we license it to various TV broadcasters or movie channels. That's the business which has taken a hit in the last about three quarters. And then there's our own channel, which we have just set up where we are showcasing some of that content as a part of our programming. I mean, these are the key monetization. And then of course, so digital is, again, different segments within that, which is like YouTube, Shemaroo Me, etc. And that is how the monetization of this inventory happens and is going to continue.

Ramakrishnan: What is the percentage of YouTube revenue currently?

Hiren Gada: Sir, I have just shared these numbers.

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

Nimish Desai: I have one macro level question. Now, I was listening to your answers to your previous question. You mentioned that because of this lockdown there has been quite a good 40% growth in TV viewing, and there has been also a great amount of consumption which has happened on digital media, means it has accelerated basically the digital media growth. However, if I put it or I compare it with our performance, we have been shown a de-growth of 30% in digital and 40% in traditional media, or 40% last quarter, this quarter is higher. So I want to understand that, I completely agree that there has been an increase in the consumption, both on traditional and digital. Because every one of us watches more TV than ever before. So I want to understand whether it's a proper structural change where our content is not the demand and the new cycle of content is more of what has been seen, and hence the advertisement is also in those channels and not for our content. And so the second cycle or post one core cycle content is going out of fashion. Because then our numbers are really contradicting the growth, which is actually there.

Hiren Gada: So firstly, so your observation on the content consumption is absolutely right. But where the things differ or where we need to look at the next step is that, see, fundamentally, the media industry has two revenue models, either the consumer pays, which is a subscription or purchase kind of a thing where the consumer is paying or the advertiser is paying. So, what has happened during the lockdown, either severe impact on the GDP and therefore the bulk of the advertisers have cut down significantly on their advertising budget. If the automobile manufacturer is not able to sell his product, he's not going to advertise. So while consumption went through the roof, the attendant advertising revenue actually crashed. And in fact, if we actually rewind back to April to June quarter, it actually crashed by more than 70%. Now, if you look at a typical media house who normally runs a movie channel, they would be buying content on a regular basis, and then showcasing it on their channel. But if their revenue and cash flow comes down so drastically, obviously, they will be putting a hold on their content investment. And that's really what has happened.

Now, which is why, what the question that we have been tracking or discussing is about how much is the revival in the ad spend. Even if we see this quarter's various broadcasters who have shared their numbers, everyone has kind of said that advertising revenue is probably still back at around 75% as far as television is concerned, which is basically still 25% lower. And as you can understand, for television business, advertising is a key revenue model as far as a broadcaster is concerned. In fact, for most broadcasters it's probably upwards of 70% of their revenue. As that is down by 25%, it means an overall nearly 20% hit on the top-line. Okay? So, what is the discretionary spend for the channel, its content, and they all have content library available with them, they are okay to defer for a couple of quarters, maybe three quarters, maybe four quarters and consume that period. And when the advertising revives back, they will come and buy, that is the overall behavior that we have seen.

Nimish Desai: So then that comes to my second question, is like we have seen in most of the other industries, there are rents to be paid or things like that, they have been negotiating with the tenant. So are these broadcasters have negotiated with you, so that at least business is running but they have negotiated fresh rates? And if yes, then for what period good forward?

Hiren Gada: No, no, we have not renegotiated. I mean, in fact, there has been zero talk on renegotiation at all, across the industry. We have not seen any such case with anyone. To your second question on whether second cycle, first cycle. I don't see. In fact, if you actually see YouTube, our YouTube graph, we have actually grown faster and fastest probably in this quarter.

Nimish Desai: Hiren bhai, sorry, I will interrupt here. I have been seeing this YouTube graph since last few years and it is always going up, whether GST came, whether demonization came or anything came. But our revenue did not reflect that the graph.

Hiren Gada: Nimesh, I am trying to answer your structural question that you are asking about whether second cycle, first cycle difference is there and people are consuming that or not, that is the question I am trying to address over here. Revenue translation is a challenge that is accepted, we are not denying that, right, we are all seeing that you pick up virtually any numbers of even the broadcaster, that revenue challenge on advertising side is reflected across our sector. So that we are not currently discussing, I am just trying, so you had two questions, one was the translation of viewership to revenue, and other is the performance of second cycle versus first cycle. So I am just trying to address the second question, on that.

Nimish Desai: So, I am not asking for any guidance or anything, but now looking as things are coming to normality in terms of lockdown and opening up, are we seeing a traction that our H2 will be better than H1?

Hiren Gada: What I can say is that, till now what we are seeing is probably we are at around 80% of pre-COVID levels in terms of advertising revenue yet, we still are not near not even 90%. And everyone is kind of waiting and watching for this festival season to see where these numbers take

off. Plus, post IPL also one needs to see how the advertisers kind of come back. So it's literally, if I have to use a cricketing terminology, it's ball by ball actually we will have to see this whether it's coming. As of now, the short answer is, as far as till we are today on the 10th of November, we are probably at just about 80% or 85% yet. In fact, if I have to give you a broad range, it is between 75% to 85% as far as TV advertising is concerned.

Moderator: Thank you, Mr. Desai. We have a question from Mr. Siddhanth Mata. Please go ahead, sir.

Siddhanth Mata: Timing on a quarter on quarter basis also. So as we are seeing recovery in advertisement and everything, what led to this decline? Because since last year levels you were around Rs. 95 crores, Rs. 96 crores, in the 1Q you were around Rs. 70 crores, this time you have dipped down to more than that. So just wanted to know about that.

Hiren Gada: I actually just explained this in detail to the previous answer, that the broadcaster revenue has not yet picked up overall and therefore buying patterns have not yet started.

Siddhanth Mata: But 1Q FY 2021 was more of a quarter, the previous quarter was more stressful than this quarter, so I was just...

Hiren Gada: Yes. But there were some previous deal flow which was already in the pipeline, which was kind of locked and those were kind of done. In fact, I had actually shared that on our Q1 call also, that there have been a certain deal flow.

Siddhanth Mata: And have you seen any recovery there in the November season, October season?

Hiren Gada: So we have queries, so there are conversations happening, there are queries and conversations happening, but it till we don't put actually sign the dotted line, I would be cautious to say that, yes, things are getting back.

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

Shikha Mehta: Sir, I just have a couple of follow-up questions. Could you give the age of the inventory? So how much is the over a year and how much is under?

Hiren Gada: I don't have it handy with me. But I mean, when you say over a year meaning in terms of, I mean, I didn't understand the question actually.

Shikha Mehta: So how much is new inventory that we purchased through the year and how much is before that?

Hiren Gada: So, if you see our last quarter, the purchase has been very, very low. And that too, for almost last three quarters the purchase has been very low and that too most of it or large part of it has been for the TV part, so as far as the film inventory is concerned, the purchases, a lot of it would be prior to that.

Shikha Mehta: Okay. And so our class flows from operations has been negative, so can you give some guidance on that, when it would be positive or what we expect moving forward?

Hiren Gada: See, net of the investment, that's what the point I have been trying to make. If you net off the investment, the cash flow is positive.

Shikha Mehta: Right. So do we expect for the rest of, maybe for the second half it would be positive, even considering the investment? Or would this be a similar trend, at least for this year?

Hiren Gada: As I said, Marathi channel we started getting revenue; Hindi, again, around the corner. I am hoping that we would have some decent revenue on the Hindi side in the next quarter, in which case the cash flow actually would kind of have a significant impact. And once that happens, we really don't need debt on an ongoing basis, because for our operational businesses we are actually generating positive operating cash flow.

Moderator: Thank you. We have a question from Mayur Gatani from Home Portfolio. Please go ahead.

Mayur Gatani: Sir, in the beginning, you quantified the amount that investments you have done in the channel business. So can you share that number once again, please?

Hiren Gada: So for the current quarter, Q2, it was Rs. 15 crores, it was actually Rs. 14 crores and slightly higher, so you can take it as approximate Rs. 15 crores. And for H1 it was Rs. 29 crores. I will just clarify one thing that this is not only for the TV business, although TV business would form a large part of this, there are three, four other initiatives also apart from TV, which go into this.

Mayur Gatani: Okay. So TV is the majority one, right?

Hiren Gada: Yes.

Mayur Gatani: Okay. And a shift from B2B to B2C company, are there any other initiatives that you are looking at, apart from this trade TV business?

Hiren Gada: So there have been already at least three that are currently in different stages. One is our devices business, which is the devotional devices that we have done. Other is, essentially, while Shemaroo Me is a B2B2C initiative to begin with, but ultimately there is a path and opportunity to take it B2C at some point in time. So the build of this whole business has been made with that thought process in place. So while we do have today B2B, I would call them B2B2C deals. But on an ongoing basis, that is something that we will have a B2C connect.

Mayur Gatani: Okay. My ignorance sir, but on the Shemaroo Me app, are you developing new content or it is just your movies catalogues that you are playing over there, and the devotional?

Hiren Gada: So at this point, it is primarily our movie catalogue. But what we are doing is, two things we have done, and this is something I have shared in the past also that, so what is happening in the overall entertainment and the digital entertainment space in particular is that, as the usage and number of users is growing, the audience is getting more and more fragmented, or rather, I would say, segmented. And various actually consumption segments are coming to the fore. And there are opportunities which we have, already where we have a significant leadership position in some of the segments, where we believe that the opportunity to go B2C is there. And those areas is where we have been investing in fresh content. And I will give you one example, which gives you a slight colour of what I am trying to say, is that within regional languages, Gujarati is a language where we have probably one of the largest and most formidable offering today and where we have been investing continuously in fresh content. And there, there is a opportunity. So the idea is for the B2B2C part of the business, we would continue to depend on the existing library investment that has been made over the last few years. As far as the potential B2C openings that we see, we would be investing into fresh content. But again, everything would go with our overall distribution, and IRR, kind of outlook.

Mayur Gatani: Okay. And on the one of investments that you have done for the newer businesses, like B2C, so it is Rs. 29 crores for the first half, what was the figure, can you quantify for last year?

Hiren Gada: It's there in our filings.

Mayur Gatani: I will have a look, not a problem. And on the inventory side, today we stand at Rs. 743 crores. So do we have any number in mind that we intend to, I mean, the new buying would be less, I understand, and you would like to monetize it further. So what is the figure that we are looking at in the next six months or a year and a half, assuming that by quarter three or earliest quarter four, we will see advertisement coming back and the broadcaster's intending to buy the inventory from you?

Hiren Gada: My own sense is that a normalized level of inventory would be much lower than where we are today, in fact, quite lower than where we are today. And I think once we are through with this poor investment phase for the broadcasting business, as well as, we see over the next three, four quarters, a certain revival in the buying pattern of broadcast of the movie channel, I think we should be significantly lower from where we are today in the inventory.

Mayur Gatani: So, I mean, anything that you can quantify, let's say, 20% down from here, 30% down from here? And at the same time, have you been able to push the broadcaster's to get the receivables faster? I mean, considering it is fixed for everyone, so...

Hiren Gada: Actually, our receivables for this quarter have come down.

Mayur Gatani: No, absolutely it has. So is that a work in progress where we are trying to ensure...

Hiren Gada: So the payment terms are somewhat still in line, I mean, they have not really changed significantly, because that's kind of, you can say, become like an industry practice. So that's very difficult to really have much work. But still, thanks to the fact that digital has contributed more, the overall receivable cycle has come down significantly for us. And in fact, I mean, all of that has contributed in maintaining the overall cash flow reasonably well.

Moderator: Thank you, Mr. Gatani. As there are no more questions, I would like to hand over the call to Shemaroo Entertainment team for closing comments. Over to you, sir.

Hiren Gada: Thank you, everyone, for joining today and discussing in detail for our Q2 and H1 FY 2021. And, yes, as I said earlier also, our team is working very hard and we are hoping that we should be having a great way forward. Thank you. All the best. And take care. Happy Diwali to everyone.

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