



“Shemaroo Entertainment Limited Q3 FY17
Earnings Conference Call”

February 07, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Shemaroo Entertainment Limited Q3 FY'17 Earnings Conference Call hosted by Motilal Oswal Securities. 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. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jay Gandhi from Motilal Oswal. Thank you and over to you Sir!

Jay Gandhi: Thank you. Good afternoon to all the participants. I would like to thank the senior management of Shemaroo Entertainment for taking out time for today's con-call to discuss the company's interest strategy and outlook post the 3Q FY17 results. I would also like to thank all the participants for taking their time to join in. We have with us today Mr. Hiren Gada - Whole Time Director and Chief Financial Officer and Mr. Jai Maroo - Director, Head of New Media Business. Without any further delay I would like to handover the floor to Mr. Hiren Gada. Thank you and over to you Sir!

Hiren Gada: Thank you Jay. Good afternoon everyone and thank you for finding the time and joining the call. It has been a satisfying quarter given the overall business environment and the conditions prevalent, particularly in the media entertainment sector. The top line has grown by 11.6% for the quarter and the net profit after tax has grown by 13.4%, which is at 14.53 Crores versus 12.82 Crores. PAT margin is 10 basis points lower than the same quarter in the last year, which is FY16. More importantly and interestingly the breakup of New Media versus Traditional Media revenue. New Media has grown at 41.3% for the quarter on a Y-o-Y basis and Traditional Media has grown at 5.7% on a Y-o-Y basis. For the nine months, New Media is at 47.4% and traditional media at 11.7%. All in all, the overall growth is at 11.6% for the quarter and 17.7% for the full year. Interestingly, in terms of some of the business operational highlights that we have shared. We signed further content syndication deal with Vuclip, which is a platform, which is owned by PCCW of Hong Kong. We launched two services on the Dish TV DTH platform in the kid genre and comedy genre, and we launched two services on Tata Sky in the Punjabi language genre and spiritual service called Tata Sky Gurus. Another highlight of this quarter has been the significant spike in the YouTube views that we have witnessed. This has come on the back of free data offering by Reliance Jio as well as some aggressive data pack offerings by most of the other operators. However, at this stage, we are not able to comment on the sustainability of this growth and the subsequent translation of that to the revenue. We did about 140 million views in September 2016 and December 2016 that went up to almost 240 million views, so virtually from a 4.5 million daily views we spiked to 8 million daily views within three months, so that has been on the back of these data offerings that have come about. Further additionally on the YouTube platform itself our flagship channel Shemaroo crossed 2 million subscribers and regional offering of us, which is Shemaroo Kannada, which is the largest Kannada channel, has crossed 500,000 subscribers. These are some of the operational highlights of the business. I would like to open the floor for questions if any.



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Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Anyone wishing to ask a question may press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Good afternoon and thank you for this opportunity. The first question is on your New Media revenues. After seeing Q-o-Q growth for probably many quarters, this is the first time we have seen that Q-o-Q basis our revenues have declined, I am referring to Q3 over Q2, and this is despite the fact that we had free data from probably many telecom players, we had some of the product launches also, but still the revenue on Q-o-Q basis has declined. If you could throw some light that decline, how much seasonality could have impacted it?

Hiren Gada: In fact, in YouTube there is a fair amount of seasonality, not only YouTube, overall on the New Media there is a fair amount of seasonality. We have in fact discussed this in the past also. YouTube's best month of the year is December for example. So do a lot of festivals and many other things can affect the consumption on various New Media platforms. Normally we never do a Q-o-Q comparison. Our comparison normally is always on a Y-o-Y basis and that is how we look at the business, because there are several factors that come into play in all of this. The growth we have clocked on a Y-o-Y basis is 41.3%.

Kashyap Jhaveri: I agree to that. I have numbers since probably June 2014 and because the base is also low, Q-o-Q we continue to see a very strong growth, just wanted to understand if there is anything to do with pricing?

Hiren Gada: While I appreciate that you looked at data, honestly we do not look at it that way. For us, when we also are looking at internally, the Y-o-Y growth is really what we benchmark or compare internally.

Kashyap Jhaveri: Okay. Second question is on your debt side. What was the gross debt in December end?

Hiren Gada: Gross debt in December end, we have not given the figure, but the figure is roughly around 280 odd Crores. I do not have the exact number at this point with me, but it should be somewhere around 280 Crores.

Kashyap Jhaveri: Okay. Last question is on your subsidiary. The losses have reduced considerably since Q1. I am just looking at difference between consolidated and standalone number. In June it was 2.5 Crores, then came to about 1.6 Crores, and now it is just about 1 Crores. So, what is driving? Any positivity to look at in the subsidiary now?



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- Hiren Gada:** In fact, we have discussed this also earlier. Some investment phase was getting over on some of these subsidiaries. Some of them still continue to be in an investment phase and may have a loss. We hope that they should turn in FY18. For the full year, there may still be a loss, but by the end of the year some of them could have at least reached break-even or a positive scenario.
- Kashyap Jhaveri:** You are saying Q4 FY18?
- Hiren Gada:** No. I am saying Q4 FY17 also for some subsidiaries. Basically as we shared earlier, some of them were newer initiatives and some investment mode was going on in these subsidiaries, and at that time also we had shared that hopefully that investment mode may get over by the end of the year in some the subsidiaries. Some of them may go longer also, so to that extent hopefully in one or two of the subsidiaries we may see positivity in Q4, but the full year may still be minus due to the first two quarters. Some of them we hope should turnaround in FY18.
- Kashyap Jhaveri:** Okay, on TV we saw you mentioning about Traditional Media that it should again start clocking the normal industry level growth of about 10% to 12%. Should we see that turnaround and a fading of demonetization effect by the end of this quarter itself?
- Hiren Gada:** We are quite confident based on conversations that we are having with various broadcast partners, etc., we are hoping that probably the demonetization effect hopefully by end of February or March. For full quarter, because you had January may still not be exactly that back to that period, but right now we are hoping that we should be able to have a better growth rate.
- Kashyap Jhaveri:** Okay, sure. That is it from my side. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Vimal Goel from Union Mutual Fund. Please go ahead.
- Vimal Goel:** Sir, a couple of my questions have been answered to the previous one, thank you. I just wanted to know regarding the gross debt. It seemed to have moved up from H1 levels. In H1 our gross debt was around 220 odd Crores and now you said that it has moved up?
- Hiren Gada:** No. H1 was at 252.
- Vimal Goel:** Okay, so that has moved up to 280?
- Hiren Gada:** Roughly, I do not have the exact number, but it should be in that range.
- Vimal Goel:** What is the outlook on reducing debt or maybe consolidating it going forward?
- Hiren Gada:** The thought process continues as we shared in the last call also that we should be closing the year with a lower debt than the current number at least. Of course, the demonetization has elongated some of the working capital cycle a little bit, but as I said in the previous answer that hopefully if



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we restoring back to a certain level we should be able to bring down the debt to that extent. The target will be to close at least below or near about September level.

Vimal Goel: Okay. From the current levels, you mean by 280, it should not be more than this when we end FY17?

Hiren Gada: Yes, that is the target.

Vimal Goel: Okay. Could you just give some outlook on inventory, as inventory days seemed to have moved up? What can we expect there going ahead?

Hiren Gada: Similar. As I said, the overall working capital cycle has gotten slightly elongated and which has caused this inventory and debt both to go up to that extent. The target will be to close the inventory at least below September level for the full year.

Vimal Goel: Okay, so reduction in debt and reduction in inventory.

Hiren Gada: That is the target I would say. Of course, as I said this is subject to the demonetization and restoring back to normalcy in a reasonable time, but based on various conversations at this point there is a reasonable sense that this should happen.

Vimal Goel: Coming to traditional, what gives us the confidence that we will come back to 10% to 12% revenue growth going ahead, because the channels have suffered a degrowth in terms of ad revenues. Are they pushing their investment in content right now? Is that what is driving confidence or what is it?

Hiren Gada: The whole revenue of the broadcasters having gone down is what has caused slowdown even in the current quarter in the traditional media. If you see why we have grown at just 5.7% versus we were at upwards of 14% trajectory earlier, now the question is that January again has kind of not yet been restored back. We are hoping that by middle or end of February we should be reasonably back. So to that extent as I answered the previous caller also is that this quarter may still be slightly tough, but we think that in Q1 FY18 we should be kind of back.

Vimal Goel: Okay, fair enough. I do understand that you have given a fair number of clarity, but I just want to probe in some more on the New Media. Of course my personal usage has gone up drastically post the freebies that these guys are offering, I was expecting your YouTube views that you have reported, but similar round of revenues have not come in. The only difference that comes to my mind is pricing. Has that impacted this particular quarter? If you could just give some more clarity, something more than what you gave the earlier caller?

Hiren Gada: I will look at this question in two or three different ways. If you ask me my biggest takeaway is that it validates one of the very, very important hypothesis on which we have made investment in



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building the library, which is the fact, that bandwidth increase and ease of bandwidth will lead to a growth in video consumption. So that direct correlation is kind of established, although the period is very short to measure it but we can see the direction. Secondly, now this sudden spike in views does take some time to translate into any kind of growth in ad spends per se or diversion of ad spends from other media to this media. So, basically what you defer in a scenario that you have the same ad spend, but much higher inventory buying for that same ad spend, which leads to a combination of lower fill rate and lower CPM or ad rate, which is what has happened. Combined with that what happened was demonetization impact where again even there the ad spend impact continued even on the digital media.

Vimal Goel: So, what do you mean to say is probably advertisers will look at your numbers and if the numbers are looking pretty impressive?

Hiren Gada: Correct. If you look about a media planner, if he has to advertise his product he has to follow the viewership.

Vimal Goel: He has seen the viewership and then probably he will take a decision.

Hiren Gada: But he will take some time to first establish that this is sustainable viewership. He will take time to adjust in terms of seeing that where this viewership pie is coming from. Is it coming from outdoor, print, television or which media, then he will have to shift his media plan, ad spends, and all of that based on a whole lot of other analytics and data mining that the respective planners would be doing or marketers would be doing. I am saying it would probably be a two to three-quarter adjustment period, which is in fact the reason why we have actually written in our earnings release also, we have very clearly written that firstly we are not sure about the sustainability of this growth because post March we have to all see where all of this settles down when they start charging. Secondly, still the subsequent translation to revenue is not yet in place.

Moderator: Thank you. The next question is from the line of Yash Mata from Vibrant Securities. Please go ahead.

Yash Mata: Good afternoon Sir. I have a couple of questions. The first one is on the broad strategy. We have recently hired Mr. Zubin Dubash as COO of the New Media Business I believe. Can we get an understanding that it is a new room, which you have created, or was this done before also by someone else? What is basically the point of view on that?

Jai Maroo: The idea was obviously as the New Media business is scaling up and looking at the way the landscape is shaping up, ultimately in a positive way at least directionally we see that this is some of the things that we were looking at are starting to fall in place. The idea is how do we beef up the structure to plan for that scale. So, the idea of bringing in Zubin was because someone who has worked at this scale as well as in different roles, with him coming in would bring in that experience to help the business scale up and allow us to move and capture better.



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- Hiren Gada:** I would just add to that. The digital media is throwing up huge number of opportunities. Today we have a team of upwards of 160 people, dedicated to this digital media. We have to really capture the growth or scale up at least equal to if not better than the industry. There is an execution aspect that we definitely need to take care of, and manage the whole growth and scaling. In that sense, we created this position and we are looking at it as an overall move as an organization towards creating very professional environment for working and getting in very senior professionals.
- Yash Mata:** Understood, that is helpful. Secondly, the increase in expense of employee, it is around 475 Y-o-Y. Is it attributable to new hiring or what is that attributable to?
- Jai Maroo:** It is a combination of normal increments as well as new hiring.
- Yash Mata:** Okay, understood. Can I have the number for inventory and receivables as of December 2016?
- Hiren Gada:** December 2016, both the numbers are marginally higher than the September number in terms of days outstanding.
- Yash Mata:** Okay. In the gross debt, how much of that is short-term debt, out of 280 odd Crores?
- Hiren Gada:** Today our core debt is working capital, while it is renewable Y-o-Y basis it is classified as short-term debt. In that sense, what is payable more than one year and above in terms of the classification is probably less than 25 Crores. The rest is all in terms of classification in less than 12 months.
- Yash Mata:** Okay, understood. Finally, one question on the New Media. With the entry of new players, Amazon Prime has launched in India. Is there a risk of these guys directly engaging with the content owners, do you see that as a risk?
- Jai Maroo:** Right now actually no, in case of certain larger content produces or houses, they may. That is particularly more new film oriented, of course there will definitely be some level of direct engagement particularly for new film or new creation of content, but the library that we are sitting on and what we have accumulated we are confident, in fact it is an opportunity for us it is actually very good to see now the emergence of players that are creating a premium or a paid ecosystem in addition to the ad-supported ecosystem. In the medium to long term, paid ecosystem is actually better for premium content while of course advertising supported will continue to have its role and will continue to be a portion of the mix. It will actually create opportunities for us and for all premium content owners in the medium to long term. So, we do not currently see that as a huge threat or challenge. We are engaging with multiple platforms on an ongoing basis.



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- Yash Mata:** Understood. One question on margin front. We saw that in this quarter our gross margin Y-o-Y expanded by around 2.5%. Was it primarily because of the change in mix?
- Hiren Gada:** Yes, primarily because of the change in mix.
- Yash Mata:** Secondly, if you see in the Q4 of 2016 and Q1 of 2017, our gross margin expanded heavily and we were around 45% odd and EBITDA margin at around 34%. Was that one-of in Q4 2016?
- Hiren Gada:** Yes. At that time, in fact I had alluded to that I am not sure of the sustainability of the margin.
- Yash Mata:** So, near 26% to 27% is a more sustainable EBITDA margin, is that correct?
- Hiren Gada:** At least based on the way the business is looking currently, yes.
- Yash Mata:** Okay, understood. Thanks a lot Sir.
- Moderator:** Thank you. We will take the next question from the line of Neeta Khilnani from B&K Securities. Please go ahead.
- Neeta Khilnani:** Thank you for the opportunity. Sir my question was on your inventory investment. In the last call you mentioned that the focus will be more on inventory utilizations or you would rather go slow on incremental inventory buildup. Any outlook on this strategy as of now, especially given the opportunity that you are already talking about of the multiple platforms coming into the ecosystem?
- Jai Maroo:** Two things I would say. We have in fact had a fair amount of headway in terms of the buildup of the library and investment over the last several years. To that extent, the kind of strategic mix of library in terms of quality, quantity, etc., we are nearing now towards achieving that what we had started out in terms of thought process. In that sense, as of now at least the discussion that we had on where the investment phase is looking to taper off, we are fairly at this point on that course. We do not have any rethink or change in that thought process.
- Neeta Khilnani:** Okay. Just to understand this a little better. If we have to achieve like 10% to 12% growth in traditional media revenues at the level that we are always talking about, what incremental investments will we need in the inventories?
- Hiren Gada:** There are two ways to look at it. One is there is already certain amount of warehousing and inventory that we have done, both in terms of longer term rights as well as in terms of the shorter term rights. If I have to look at it on a steady state basis, incremental investment actually I do not see for the next two to three years, once we reached that steady state. We would continue to invest, but the incremental buildup of inventory I think would be manageable within that. To answer this question slightly differently in case I was not very clear is that what has happened in



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the last three years or maybe even a little more is that we bought more than what we have consumed or sold, which is the preparation for the next phase. So what will happen over the next phase is that the sales will catch up because of the growth versus the inventory addition would kind of taper off.

Neeta Khilnani: Okay, fine. Just to probably in days term maybe can that be how will the inventory reduce in days term, any idea on that?

Hiren Gada: I think we should target reducing inventory basically at least somewhere near about less than 250 days and still manage growth, which is what we should be looking at.

Neeta Khilnani: Okay Sir, this is helpful. Just one last question, so the increase in inventory that we can see in this quarter that is about 32 Crores, is it possible if you could give us the number of the titles that you have acquired this quarter or maybe renewed, can we look at that number in conjunction with the addition to your library?

Hiren Gada: To be honest, we actually do not look at it exactly in that manner. It is difficult for me to actually give you that number because the value of pricing per title changes significantly based on various factors, so in that sense we honestly do not look at it that way.

Neeta Khilnani: Okay, where does our content library stand as of now in terms of titles?

Hiren Gada: As of the last annual report that we have shared, we are at roughly about 3400 plus titles. I would think at this point we should be marginally above that, not a whole lot, but somewhere in the range of 3% to 5%, actually to be more.

Neeta Khilnani: So, this increase in inventories for about nine months could be more on the renewal side, is it fair to say that way?

Hiren Gada: Yes, that is one way and the other is basically more rights, better titles. It is a combination of many things actually.

Neeta Khilnani: Okay Sir, thank you.

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

Pragya Vishwakarma: First half of my question has already been answered, but I just wanted to understand in the quantum terms could you define what would be in the inventory addition Y-o-Y? Till now we have increased it by 30 to 32 Crores, for the full year what can be this number and if you can give some guidance on FY18 and FY19, will this number come down or it is something which is sustainable at this level?



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- Hiren Gada:** As I said earlier also, the target for this financial year is to close the inventory at below what we had in September 2016 in terms of the number. That is definitely one of the objectives. Once the investment phase gets done with, which should be somewhere in Q3 of FY18 hopefully, post that the target should be the sales should catch up and inventory probably at same level or marginally lower than that. Ultimately over a period we should go, in terms of number of days if I have to put it at, below 250 days.
- Pragya Vishwakarma:** Okay, thank you. That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Shalini Gupta from Quantum Securities. Please go ahead.
- Shalini Gupta:** Basically, the New Media so far has been growing at 50% plus, now it has also grown. Going forward, can we expect at least like 40% to 45% growth?
- Hiren Gada:** Given the fact that industry projections are at around 30% to 35%, and the position that we are in, in terms of investment and library, I think we would target to grow between 40% and 50%.
- Shalini Gupta:** Okay. My second question is earlier you had indicated that it has a working capital cycle of 90 days odd versus the traditional media working capital cycle of close to 180 to 200 days. Has something gone up or gone down here?
- Hiren Gada:** No. The respective media's working capital cycles continue as they are.
- Shalini Gupta:** Okay. You had earlier said that basically the New Media is being driven by telcos, which contribute about 50% to 55% of the revenues. As that figure gone up now?
- Jai Maroo:** No. The proportion roughly is still similar as what it had been. While we have seen for example a lot of growth on the internet platforms we have also seen that the operators have continuously grown their subscriber bases, the number of base which is data enabled and so on. The revenue coming to us via the telco wallet has also continued to grow.
- Shalini Gupta:** Okay. My last question is given that it is basically the young people who watch movies on the net and things of that sort, and this young is being defined as less than 25, given that you are looking at movies, which are in the second cycle. If you could just share your thoughts on this? To me there seems a disconnect between the people who are watching and your content, being that it is in the second cycle. So if you could just share your thoughts on this?
- Jai Maroo:** First and foremost, just because we are in the second cycle it does not mean that we are in extremely old content as well. We are constantly reviewing the mix of our content. Today for example if we talk about some of the content that we have dealing with, we have titles like Jab We Met, Golmaal, Golmaal Returns, and so on. All of which appeal to the segments that you are



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talking about. Also what we genuinely see in terms of where the revenue is coming from, the revenue is not all coming from only below 25. The spread of where the revenue is coming from wider than that.

Hiren Gada: Just to add to that, there is no doubt that the fresh or the latest movie will have a certain amount of viewership traction and pull factor and what we call spurt consumption factor. The issue over there is finally how do you look at it financially, because the risk reward for new or first cycle is phenomenally different and the risk reward here is completely different. So, we understand that second cycle and third cycle content will have a lower consumption and that is what we are factoring in when we are acquiring it in terms of what we want to pay for that. The ROI aspect is equally or more important for us than really this first and second cycle. Last point I would add is that today if we are doing virtually 8 million views on a daily basis on YouTube, it is on the same library that we are doing and we would be probably in the top 10 most viewed channel partners of YouTube in India. So it is the same digital media, it is the same audience, and it is the same content that we are talking off, but it is tracking in the top 10 in India in that sense.

Shalini Gupta: My last question is can you confirm that essentially you are not looking at movies more than 10 or 15 years old when you are acquiring them?

Hiren Gada: No, that is not true. We look across the entire spectrum. There is no such compulsion. What Jai meant to say was that we are not stuck to saying that we look at only movies pre 2000 or pre 2005. As the time is moving, we are benchmark of what we are adding to our library also or what is the new thing also is changing with that. It does not mean that we have abandoned the Mughal-E-Azam of the world or Amar Akbar Anthony of the world.

Shalini Gupta: Okay, thanks Sir.

Moderator: Thank you. The next question is from the line of Ashitosh Garud from Reliance Wealth. Please go ahead.

Ashitosh Garud: Just on this New Media, you mentioned there is seasonality and the December being a high hit month of YouTube, but this seasonality has not reflected in your data as of now because if you see the previous Q3 New Media revenues, they have always clocked Q-o-Q growth over the Q2. Let us say it was 5% Q-o-Q growth in Q3 FY16 and Q3 FY15 it was a 15% sequential growth. This seasonality is actually not reflecting in the data.

Hiren Gada: But the fact is that it is there. To that extent, as I said earlier also do not look at what we did in September quarter versus December quarter particularly for many platforms. Just to continue that example, the revenue drop from December to January in YouTube is quite perceptible; because it ultimately depends on the ad spend aspect of what is being spent on YouTube. December is normally the peak season of ad spend on the platform. That is just one example what I was giving of the seasonality aspect.



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Ashitosh Garud: You are right that Y-o-Y is the right way and even if we see on a Y-o-Y front this is the lowest growth we have seen in the last eight to nine quarters?

Hiren Gada: Yes, I agree with that. The whole reason for that is, as I said earlier also, there is a reasonable impact of demonetization here. Today, if FMCG or an automobile has reduced advertising on television, it has also reduced advertising on digital media, so as the consumer's wallet, let us say if he was buying something through the mobile telco, there has been a shrinkage in his wallet at least for that period right?

Ashitosh Garud: But we have seen this, and you are mentioning January has not been very different from the quarter which ended, is that right?

Hiren Gada: It has been probably better than December, but not yet back to the momentum that it was there. January has definitely been better than December, no doubt about that.

Ashitosh Garud: Okay, we were just checking with other business segments especially these FMCG and many other sectors; they are of the view that things have already been at a normalized level at the end of January. Would that mean the spend in your case in case of New Media would be in line at least for the February and March?

Hiren Gada: We are hoping that by February end it should normalize, that is what I just said. That is the reason also why January is better than December. Some segments have bounced back, but some still have it. What we see in terms of ad spend is accumulation of everything.

Ashitosh Garud: Is there a case where would see a lag effect, I mean the Q3 spends get delayed and getting bunched up in Q4, would that be the case?

Hiren Gada: There is a hope for that. That is a very interesting point that you brought up. Particularly I would say more in the traditional media front, what happens is that many advertisers get into annual deals with the broadcasters, and we are hoping in terms of discussion with the broadcasters also, they are in general saying and hoping that if the annual commitment is fulfilled there should be a certain bounce back in Q4.

Ashitosh Garud: Okay. This you mentioned about traditional media.

Hiren Gada: Yes. In New Media at this point I do not think people really have annual deals, so whatever inventory has gone unmonetized I think in that sense it is lost.

Ashitosh Garud: Okay, you mean to say that demonetization effect was felt in both your segments, New Media as well as traditional media.

Hiren Gada: For example, if the FMCG customer has reduced his ad spend on TV..



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- Ashitosh Garud:** I got the New Media aspect, but the traditional media how exactly was that impacting?
- Hiren Gada:** Mine is secondary derived demand right? If the fill rates are lower and his ROs have got canceled or whatever, therefore his own cash flow cycle, etc., got elongated, so the impact on his own expenses and acquisitions, etc., is bound to be...
- Ashitosh Garud:** Yes, that would only delay the contracts, which you would be making with the broadcasters right, because you can hold two or three months of inventory?
- Hiren Gada:** Which is what I said, if you see the numbers that we have reported, the working capital cycle got elongated.
- Ashitosh Garud:** Okay, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Hiren Desai from Anived PMS. Please go ahead.
- Hiren Desai:** Thanks for taking my question. If you could talk a bit about the competitive landscape on the New Media side? Who else are you competing with? Is there a lot of aggression in terms of the content buying?
- Hiren Gada:** On the secondhand subsequent cycle at this point really no. There is certain amount of land grab happening at the new film end, and particularly there are one or two players who have come in like Amazon, etc., who have done large pipeline deals which are primarily as far as new films are concerned. Many of these platforms that have launched in the last 12 to 18 months are either we have already have a deal in place with them or we are in some stage of negotiation or discussion for potential deals.
- Hiren Desai:** The other question that I have on New Media was sort of similar to what one of the earlier participants asked. If you look at New Media in terms of consumption, it is far more fragmented. It could either be YouTube, it could be mobile phones, a lot of it could be video on demand, and on the consumption side it could be Hindi movies, it could be comedy, a lot of interviews, so I wanted to understand how easy it is to plan content buying on the New Media Side? Is there a clear distinction that you guys internally make in terms of the target audience you have on the traditional media side versus the New Media side in terms of either the age or the specific consumption patterns?
- Hiren Gada:** Two different aspects. First is, given the nature of fragmentation how do we plan the content. One larger overall segment or aspect for us is the fact that film consumption on New Media is at a certain pace or in a certain manner. Our core segment or our core area that we are addressing is the film viewers market. That is undoubtedly an important or happening at a certain way in a certain manner. Apart from that, the question is that how can we slice and dice the content? How



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we can repurpose the content in ways that (a) can target different segment. (B) Therefore it can enhance the monetization or basically we can sweat the asset more. To that extent, for example if you see YouTube, we have a channel called Filmi Gaane, where we have got all the music videos, it is the largest retro Bollywood music destination on YouTube by the number of subscribers. It is in the top 25 most subscribed channels on YouTube in India. That is one way of doing it.

Hiren Desai: On Filmi Gaane, I just wanted to understand are you seeing growth on par with the rest of the portfolio in terms of ad revenue that you are getting out of Filmi Gaane?

Hiren Gada: Yes, absolutely. Ad revenue follows viewership. As per the viewership, fill rate, etc., Filmi Gaane is at par with the rest of my monetization.

Hiren Desai: Right. On the New Media side, just the traditional portfolio of films and Filmi Gaane and content of that sort, it would what percentage of the overall revenues?

Hiren Gada: At this point, I am not in a position to give you that. In a way, it is a secret, it is competitive information, and I am not able to share that.

Hiren Desai: No issues. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Divesh Mehta from Dinero Wealth. Please go ahead.

Divesh Mehta: There was one question. I just wanted to know what is the growth in ad revenues for this quarter on traditional media and in New Media?

Hiren Gada: In traditional media, if I look at the whole quarter I think we would be probably marginally up. Post demonetization it was definitely down, but full quarter if we look at it would be marginally up or flat at the most. For New Media, I do not have the stats, post demonetization I would say it would be flat at the most, not a degrown kind of scenario, for the full quarter it would be marginally up.

Divesh Mehta: Okay. Just one more thing. I just wanted to know that this quarter New Media grew by 40%.

Hiren Gada: This is what we are seeing. We do not know what the actual industry numbers are. This is based on what we are hearing and experiencing from the ecosystem.

Divesh Mehta: No issues Sir. New Media grew by 40% this quarter. Normally we are in the range between 45% and 50% on Q-o-Q basis since last I think four to five quarters. What my understand was this quarter we have witnessed some slowdown in New Media, not I am saying to a large extent, but



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to a small extent. Do you see this thing settling down going forward in the next two to three quarters also?

Hiren Gada: Yes. As I said, there is a certain demonetization impact in this lower growth definitely. As we discussed, as things normalize hopefully by the end of the current month, going forward our target is to be in the 40% to 50% trajectory. As I said earlier, the interesting spike we saw in the news, if that continues hopefully that should give us next set of growth.

Divesh Mehta: No issues. That is it from my side Sir. Thank you.

Moderator: Thank you. The next question is from the line of Sachit Kheda from Smart Equity. Please go ahead.

Sachit Kheda: Good afternoon Sir. Thanks for the question. Last year from December 2015 to March 2016 quarter we saw a reasonable jump in both employee expenses and other expenses. Can we expect a similar jump going into Q4 this time as well?

Hiren Gada: For this year, yes, definitely into Q4 because given that we have grown the team for some of these new initiatives and the New Media, there is definitely an increase in employee and G&A expenses basically.

Sachit Kheda: Going from December to March we can expect a reasonable jump I guess?

Hiren Gada: Yes.

Sachit Kheda: Okay. Just wanted to understand your perspective on whether advertisers are bargaining harder for the price that they pay for your content as perhaps they become bigger and bigger. Is that posing a threat to your long-term IRR of 18%?

Hiren Gada: I would not at this point think anything of that sort happening. The reason is that ultimately the advertiser is following the viewer. If the viewership is going up, the ad spend is going up. If the viewership is going down, the ad spend is going down. Within that space ultimately everyone wants to do certain amount of targeting and chase certain combination of reach and targeting. In terms of digital, actually it is a better media for advertisers to advertise and at the same time even the ROI for the platform itself is better.

Sachit Kheda: Got it. What is the finance cost percentage that you pay at an average level?

Hiren Gada: The average is around 11.5%.

Sachit Kheda: So there is no discounting or receivables?



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Hiren Gada: Certain receivables, which are discountable, we attempt to do that, but in that sense it is kind of one and the same.

Sachit Kheda: Got it. The last question Sir, how is the outlook going into FY18, do you feel good about the year going ahead?

Hiren Gada: If I look at three or four different aspects or things that are coming up, the digital space itself is growing, like what we have witnessed on YouTube I think it is phenomenal. At this base, if we are growing in three months virtually from 4.5 million to 8 million daily views, that is something, which gives us a lot of hope. I am saying, even if we settled down somewhere in between, because once the Jio starts charging and consumers pull back on how much of consumption they are doing, basically there is a new normal which has shifted upwards and that would definitely lead to more spend by the advertisers which would have a lag effect, but ultimately the upward trajectory is more important.

Sachit Kheda: Got it, thank you Sir. That is all.

Moderator: Thank you. We will take the next question from the line of Bhaskar Choudhary from Entrust. Please go ahead.

Bhaskar Choudhary: I wanted to understand how frequently would you value the inventory? What is the process? When would you mark up or mark down the inventory?

Hiren Gada: Our inventory charging policy or process is well laid out at our presentation which is uploaded on our website. At the core, based on the nature of the revenue and what is residual with us, we charge on that. So, that policy is well laid out. In terms of marking up or marking down, we never mark up the inventory. Marking down, if the rights have commenced and not sold for 18 months is when we charge off 100% to the P&L.

Bhaskar Choudhary: Okay. You have 3500 titles that you mentioned, how many of those would you have kind of marked down or those are active titles so to speak?

Hiren Gada: Active as in where I have some revenue, I think it would be bulk of it. We have different rights to the 3400 odd titles. Depending on what rights we have, revenue would fall in those respective pockets, but it is all active titles that we are talking of.

Bhaskar Choudhary: Okay. These 3500 or 3400 would not constitute any titles where you would have had to mark down?

Hiren Gada: Historically, marked down has probably been less than 1% in a given year of the inventory.

Bhaskar Choudhary: Does the mark down have a materiality threshold for revenue?



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- Hiren Gada:** Period threshold basically. If the rights have commenced and we have not monetized it for 18 months, then it means that we take it to P&L 100%, anything post that if does arrive it gets added to the income.
- Bhaskar Choudhary:** Okay. Let us say, taking a hypothetical number, even if you monetize Rs.100 on a title over an 18-month period, you would still not mark it down? Would there be revenue threshold as well or would it just be period threshold?
- Hiren Gada:** What happens is that in terms of the New Media rights that we have, that anyway gets charged off equally over a 60-month period on a monthly basis. This is more relevant to the traditional media or television rights. Rs.100 is not possible on a standalone basis, which is way the model is. If there were any income on that, the inventory anyway would get 100% written off. Actually, what I suggest is if you can just go through the relevant slides on our presentation and maybe we can have an offline chat on that and we can explain if you have any confusion on that.
- Bhaskar Choudhary:** Sure, thanks.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Jay Gandhi for his closing comments.
- Jay Gandhi:** I thank the management of Shemaroo Entertainment for taking their time out for this analyst call. Sir, over to you for any closing comments!
- Hiren Gada:** Thank you everyone for spending the time and hearing the discussion, and look forward to exciting quarter ahead. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Securities, that concludes today's conference. Thank you for joining you and us may now disconnect your lines.