



“Shemaroo Entertainment Limited
Q3 FY18 Earning Conference Call”

January 24, 2018



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Shemaroo Entertainment Limited
January 24, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2018 Earning conference call of Shemaroo Entertainment Limited hosted by Dolat Capital. 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 an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Taurani from Dolat Capital. Thank you and over to you Mr. Taurani!

Karan Taurani: Good evening everybody. We at Dolat Capital are pleased to host the Shemaroo Entertainment Limited Q3 FY2018 earnings conference call. We have the senior management of the company with us represented by Mr. Hiren Gada - Whole Time Director & Chief Financial Officer and Mr. Jai Maroo – Non-Executive Director. Over to you Sir for initial remarks and then you will be followed up with Q&A.

Hiren Gada: Good morning everyone and thank you very much for spending the time stopping by and joining up for the Shemaroo Entertainment Q3 FY2018 earnings call. I am Hiren Gada and I am happy to announce the results of Q3 FY2018, which have already been filed with the exchanges.

For the quarter ended December 2017, which is Q3 FY2018, the total revenue has gone up 15.3% Y-o-Y on a consolidated basis, EBITDA by 12.5% on a year-on-year basis and net profit has gone up by 23.6% on a year-on-year basis. So the total revenue is Rs.132.8 Crores, EBITDA Rs.36 Crores and net profit after taxes and all adjustments is Rs.17.8 Crores. The margin on EBITDA front has marginally dipped by 67-basis points on a year-on-year basis to 27.11% but on the bottomline level net profit margin has actually gone up by 90-basis points to 13.4%.

On a consolidated basis for the nine months ended December 2017, the total revenue has gone up by 14.3% to Rs.371 Crores; EBITDA has gone up by 13.2% to Rs.106 Crores and the net profit after tax has gone up by 19.9% to Rs.52.4 Crores. The breakup of topline, which we have been reporting between digital media and traditional media, so for the quarter ended December the digital media has grown by 40.8% and the traditional media by 10.6% respectively to Rs.33 Crores and Rs.99.5 Crores. For the nine months, the digital media has grown by 41.7% to Rs.95.8 Crores and traditional media by 7.6% to Rs.274.8 Crores.

Overall, what we have seen is the continued traction on the digital media business. So we continue to sign many deals. Some of the deals that we have discussed or shared about in this quarter, our content deal with Vuclip, so we have added few more content deals with Vuclip with Spuul. On DTH front we have launched on Tata Sky, the Tata Sky Marathi Cinema Service in December and coming to the YouTube, so YouTube our FilmiGaane channel continues to grow and it has crossed actually 3 billion cumulative views and Shemaroo Entertainment our flagship channel has crossed 5 million subscribers.



Shemaroo Entertainment Limited
January 24, 2018

Overall YouTube if we were to look at the views have gone up, so the continuing trend of rapid growth in views post the Jio launch has actually continued into this quarter as well. So our views for December we have closed at approximately 540 million views versus September, which was at nearly 400 million views so we have even on quarter-on-quarter basis, the views have gone up by more than 35%. In fact if we were to just rewind back pre-Jio, which is our September quarter we had clocked daily views of about 4 million views was what we were clocking in September 2016 quarter that has gone up to about 17 million daily views in five quarters post that up to the last quarter. So now we are doing actually in excess of 17 million views on a daily basis. So only caution, which we had last time on YouTube still continues, which is that some brands have pulled their advertising out of the YouTube platforms since some of their ads were showing next to hateful and offensive content and as a result YouTube has implemented stricter brand safety guidelines and overall monetization of content on YouTube has therefore been impacted. So this has not really changed in any significant way as far as this quarter is concerned. But I would look at it from the point of view that as long as the consumer traction is strong, we believe that ultimately the translation into revenues will happen and should happen with a lag. So that is the update from my side. With that we would like to open the question and answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri: I have got three questions. One, if I look at during this M9 in line with your guidance inventory addition has slowed down significantly our interest cost also seemingly has gone down so I just wanted to check what were the OCF and FCF for M9 and if there were any debt repayments in the last quarter? Second question is again on your new media side, now that inventory additions have slowed down would the yield on this inventory continue to inch up and what could be the magnitude? Third question is on your deals outside India, one was with PCCW, Hong Kong and there was a deal, which were signed sometime last year with Vuclip, what is happening on those deals? What is the ramp up?

Hiren Gada: Firstly, there has been slow down. In fact the inventory in this quarter has gone down so we picked up in the June quarter on inventory and next both the quarters the inventory has been coming down. The debt also there has been a certain level of repayments in the December quarter and there are some scheduled repayments also happening in the current quarter are being planned. So overall there is a lower debt at this point compared to both June when we had peaked the balance sheet.

Kashyap Zaveri: Can you quantify the number?

Hiren Gada: Separately I can give you more closer number. At this point I will have much wider approximation.



Shemaroo Entertainment Limited
January 24, 2018

Kashyap Zaveri: Just going back to the first question, then a guesstimate would be right now we would have generated even FCF in this quarter?

Hiren Gada: Yes, very much. Second question is on the yield on inventory owing to the digital media, so two ways I would look at it while inherently on the existing inventory yes, the yield is going up and with overall the digital media going up the existing inventory yield is going up, but not to forget that there is a continued addition or investment still happening, so what we are doing is lower investment than monetization at this point in time. It does not mean that there is no acquisition or investment happening, so the focus still at this point overall is on the IRR management while one of the definite ways that it is happening through better yield on the existing historical inventory that we are carrying and that was really the thesis with which the investment has been made so in that sense I mean it is expected to play out in that way.

Kashyap Zaveri: Let us say if I look at FY2017 numbers we had an average inventory for the full year of roughly about Rs.400 Crores, Rs.425 Crores and the income that we generated was about Rs.92 odd Crores now average inventory has inched up only to about Rs.560 for the revenue line item is like upwards of about almost Rs.100 Crores in the first nine months itself?

Hiren Gada: We have already kind of cross last year number.

Kashyap Zaveri: So it is that almost like 200-basis points expansion on what you were making on closing and opening inventory. Do you believe that this 2% point increase can continue for next few years on yearly basis? I will tell you where I am coming. For example, if I am looking at Netflix which is not exactly the comparable structure, they have their own app and they have their own content, original content also but versus let us say inventory about 10, 12 billion they make revenue of this similar number, which is like 100% yield? Can we expect that though we do not have original content plus the fact that we use other mediums also where we need some pass on of the fees but still we can be a fairly high double-digit number in terms of yield what we can make our inventory?

Hiren Gada: What you are saying inherently, logically that is how it would move; however, we do not look at it or measure it in that way. For us really the yield management as I was saying earlier is more important. In fact the yield has to go up, IRR management. If the IRR has to go up by mean there has to be higher yield logically, so inherently what you are saying is right but like I said we have not looked at it exactly from that point of view.

Kashyap Zaveri: Okay and about those deals?

Hiren Gada: Vuclip in fact we signed the deal. Last year in fact last year also we had a couple of deals and this year we have added to some more content to that actually and the other one you mentioned was PCCW, so PCCW again last year we had a deal with PCCW and there are other conversations happening with PCCW in fact right now, but not in a position to comment beyond that.



Shemaroo Entertainment Limited
January 24, 2018

- Kashyap Zaveri:** That is it from my side. Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Ankit Pandey from Quant Capital. Please go ahead.
- Ankit Pandey:** Thanks for taking my question. My question would be first of all if you could give us the library number that you have currently?
- Hiren Gada:** I am sorry but right now we report it once a year so that will be due only after the annual result.
- Ankit Pandey:** Sure, could you give me an idea is that the gross number or net number?
- Hiren Gada:** I did not understand your point.
- Ankit Pandey:** Is that net of the sales that you make?
- Hiren Gada:** If we are holding the rights at this point in time, the valid right, which is monetizable then it is figuring on that list.
- Ankit Pandey:** I got it. Another question would be if you could talk a little bit about the gross profit improvement. I know last call you highlighted that there are some services that you have rolled out and most of them are fully cost, and also around the part that there could be a favorable inventory cycle behind this, so could you just talk about which factor is more important?
- Hiren Gada:** Clearly one important factor for us overall has been the whole balance sheet management in terms of cash flow, inventory and debt and of course receivable. So that has been a clear focus for us particularly in this entire year and more importantly in the last two quarters and this was the question that has been coming up time and again about the margin focus and I have been saying that at this point, I would not take margin expansion into any of my projections at this point in time. If we are able to maintain the margins near or in the range of where we are we will be happy.
- Ankit Pandey:** Right that was helpful and if I can ask just one more you talked a lot about Netflix and Amazon videos being also part of the ecosystem but are they less of a target for us they might be involved lot more in the primary cycle of buying so could you talk about Netflix and Amazon especially the latter being very aggressive these days?
- Hiren Gada:** If I kind of recap was happening in the landscape right now, so basically both Netflix and Amazon have globally rolled out the very large video services and very aggressively built up those services both in terms of content as well as brand building etc. Now the question for us is that what play do we have and how do we participate in the whole rollout plans that they have and secondly what is the impact it has on the ecosystem and therefore on us, I think these are two



Shemaroo Entertainment Limited
January 24, 2018

larger level questions that with kind of we have been also figuring and everyone discussing with us. Now the first question is that so one question was about Netflix, Amazon acquiring exclusivity for the films, so what we have seen about their exclusivity is that the focus of a lot of these deals is primarily on the new film where we are not present. So one question was that if Netflix and Amazon are buying out exclusively would that content remain available for us or not? What is actually happening is that they are buying three to five year rights exclusively for new films and we are anywhere not participating in that stage of the films lifecycle. So by the time the film becomes five years old, which comes into the second, or subsequent cycle of monetization, the rights are anywhere reverting back to the original producer. So that door for us continues to remain available and open. Second question is what is the stand on reissue films as far as these platforms itself are concerned. I think all of them have fair mix of reissue content. In fact we already have quite a few films up on Netflix at this point in time, so all of these whether it is a Netflix, Hotstar or Jio, all of these platforms are already customers for us and we continue to power or partner, whole lot of content with each of them.

Ankit Pandey: Is there a play here, if I may try to sort of think about this, but also subscription driven platforms more oriented towards new content than otherwise, is that put you think as well?

Hiren Gada: What we have seen is that, if I have to in a crude way call it there is a hunting and there is a harming, so the hunting strategy is about attracting the customer with the new fresh content, but then there is a harming strategy, which is about engaging the customer and getting the usage done, we believe that from whatever we are seeing even on YouTube what we are seeing on television etc., that reissue is the staple diet for every platform because ultimately in this business familiarity is very important as far as consumer is concerned. So if he likes a “Jab We Met or Ajab Prem Ki Gajab Kahani” he will see humpty number of times. He would not mind seeing it like we all have experience that right so we are seeing our own favorite movie, multiple numbers even today we see it around on any platform, we do not mind consuming it or among many other choices will rather prefer to consume that content if I would rather quote it. So if I have to look at it from that point of view, I think library while the new film is going to be the draw on consumer on customer acquisition, I think the retention will have to be on whole lot of library availability.

Ankit Pandey: That is interesting and if I can ask final one. Could you give me a mix roughly of YouTube in your digital media or is that not the right we look at it more from subscription versus ad based in new media?

Hiren Gada: No. We have been discussing about the overall breakup of the new media business, so there is a telco wallet-billing component then there is a YouTube and there is a whole syndication far to all these platforms like Jios, and Hotstars, Netflix’s of the world, so YouTube at some point was roughly about 30% odd of the new media business but given what has happened in the last two or three quarters with YouTube that has slipped down a bit and hopefully in the next couple of quarters it should catch up or bounce back 50. So that is the broad breakup of the business.



Shemaroo Entertainment Limited
January 24, 2018

- Ankit Pandey:** Thanks a lot. I will jump back in the queue. Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Smita Khilnani from B&K Securities. Please go ahead.
- Smita Khilnani:** Thank you for the opportunity. My first question was on inventories. So for the first nine months we have seen an increase of Rs.52 Crores while we had guided for marginal increase or probably no increase at all for FY2018, so Sir just your comments on the same if the guidelines is still maintained or if there is any change there?
- Hiren Gada:** If I were to look at it what we had and which was what I started with the inventory peaked in June and post June what we have seen in both September and December it saw a lower trend, so we are still hopeful of closing the year with a similar or at worst marginal increase in the inventory from March-to-March basis.
- Smita Khilnani:** Sir my second question was on the new media space, I believe YouTube has increased its advertising threshold for advertisers in terms of subscribers and watch time, so how will this impact our revenues in the long run, will it meaningfully help us increase CPM for our content?
- Hiren Gada:** I think this is part of the overall brand safety strategy that they are doing as well as there are lot of what is happening earlier was there was a very big focus on views, a lot of that focus has now shifted to time spent and subscription. So that are now more key drivers of the quality of your engagement with the audiences and therefore those are the bigger drivers in terms of even the relevant ad revenue. So in a way if I were to look at it bulk of our channels in fact most of our channels are already above that threshold what they have put, so our reading is that this is more done to discourage, not even discourage, I would say but ensure that this full brand safety, many times what would happen if someone would just put up few video than they may not necessarily be appropriate content it may be hateful or offensive content, but somehow they would notch up views and start getting monetized, which would cause a risk on the brand safety side, so in a way we look at it is probably takes out a lot of fringe players out of it, so hopefully with that going out the confidence of the brands increases more and the focus of the spend also is on a smaller set of more serious partners on the platform, so in that sense in the medium term we think it is ultimately beneficial for us.
- Smita Khilnani:** Okay, so the YouTube side which is about 30% good deal of growth?
- Hiren Gada:** Currently it is not that 30%. As I was mentioning it is about three to four quarters back it was 30%, it is slipped off because YouTube has not kept pace with best of the world.
- Smita Khilnani:** Okay, on the overall new media space you were clocking that 40% growth in the last few quarters, so going ahead in FY2019 and what is the kind of growth you envisage given the environmental way dynamic currently?



Shemaroo Entertainment Limited
January 24, 2018

Hiren Gada: The way we would look at it I think overall if we again look at in projections by most of the expert reports that we see industry reports they are projecting a 30% to 35% growth for the digital media space. If we were to further look at for ourselves, this 40% plus that we are doing so maintain that Youtube has to fire up. So if not then that could marginally come off a bit also given the fact that the base has now grown I mean we are nearly at Rs.100 Crores in the nine months, so base itself has now grown significantly so maintaining that 40% kind of trajectory for right YouTube has to really fire up.

Smita Khilnani: Thank you. That is all from my side.

Moderator: Thank you. We will take the next question from the line of Vimal Gohil from Union KBC Asset Management. Please go ahead.

Vimal Gohil: Thank you for the opportunity Sir and congratulations for a good quarter. I had a question on your business mix. If I look at your business mix it has skewed significantly towards the new media business in the last year let us say, so from 20% odd we are at 27% now, with my limited intuitive understanding this should have positive bearing on margins, which should have improved our margin as well that has really not happened, so if you can just give some more clarity on that?

Hiren Gada: In fact this is something that almost for the last three to four quarters I have been discussing that the margin improvements story something that would not take in at this point in time. I think for us the combination of the balance sheet and secondly even at a level, even achieving a certain scale and growth was more important and while doing that we have tried to ensure that we are not really slipping up on margins. So I think really it is a combination of both of these that we have been focusing on.

Vimal Gohil: Is it that the content is getting expensive for us or is it that monetizing it has become monetizing or giving it to a different platforms and the costs have gone up there?

Hiren Gada: If I were to look at it so one is of course the fact that you had something like YouTube has not fired up because there the impact on relative margin for the incrementality would be substantially higher. So that is one of the issues. Other, I would say is that definitely if you look at the certain other cost aspects also we have invested a lot in say people for example our people expenses have been going up or those kind of other things have been hitting into the margin to some extent, I would not say entirely, but there is a certain expense that is going into those, so all of this ultimately is building out the next level of growth execution and the senior leadership and things like that but in the short-term it is affecting the overall margin structure.

Vimal Gohil: Do you have particular desirable margin range internally that is why we want to be really?



Shemaroo Entertainment Limited
January 24, 2018

- Hiren Gada:** Again I will reiterate because discussion came up earlier also the focus is on the IRR more than the margin for us.
- Vimal Gohil:** Okay that is 17% to 19% IRR number stays?
- Hiren Gada:** That is the focus for us to achieve and it may mean shorter term content or longer term, so margin could vary based on the turnover of the inventory and various other factors.
- Vimal Gohil:** Sir Zee and most of the broadcasters are giving very good outlook in terms of their advertising, how are your conversations with them in terms of their investments into content for movies? Are they going to be aggressive enough to invest into movie content going forward? Will the aggressiveness return?
- Hiren Gada:** Yes, so we have seen that in fact what we are seeing also in this last two quarters, which is September and December quarter I mean there is a very good growth that we have achieved on the traditional media front and that in fact is on the back of a very strong advertising outlook that the broadcasters have had so we have already seen certain demand and a good traction with all the platforms that we are working with.
- Vimal Gohil:** Last question from my end. Is it safe to say that we have largely seen expansion of your balance sheet is behind us in terms of investment in inventory, although regular smaller investments can take place, replacing inventories can take place, but major, major inventory expansion is now behind us going forward? It has been almost three years since – you have been in three years almost.
- Hiren Gada:** Yes, as far as net inventory is concerned, I would agree that largely that net inventory addition is kind of now in place expansion wise, but deal wise we could look at big or small average, but net impact we think would not be expanding the inventory.
- Vimal Gohil:** Thank you very much Sir.
- Moderator:** Thank you. We will take the next question from the line of Dhiraj Dave, Individual Investor. Please go ahead.
- Dhiraj Dave:** Hiren, congratulation on good set of numbers. Couple of things generally I understand based on our previous connection that December quarter is the best for us. Now if we look at YouTube data, which you provide on presentation basically that appears to be showing significant jump, so as you correctly said that basically probably YouTube issue that has not materialized, but should you not be applicable to the other media in new business for Jio or Netflix or any other Hotstar or other channel through which we are giving this. December factor is it applicable only to YouTube or it is applicable across the new media and if you can explain more in detail about film?



Shemaroo Entertainment Limited
January 24, 2018

Hiren Gada: YouTube is a direct ad supported platform where we on directly out of the ad revenue. So therefore the direct impact of that is so YouTube in that sense is a more for us like B2B to B2C kind of thing and therefore that the seasonality of the ad spend peak or trough effects the reasonability of YouTube's own earning. Now if I were to look at it from some of the other platforms point of view, a lot of the deals that we do with particularly because many of the platforms are still at early nascent stage, many of them are more fixed few deals B2B kind of deal, now those deals are spread out reasonably during the year someone building their inventory in anticipation or library or showcasing content in anticipation of these peak advertising season, someone investing based on their parents own investment cycle or budget allocations and things like that, so there is a certain spreading out of that; however, there definitely is one level of seasonality even within that and to that extent like I have earlier also said and I repeat that some of that translation happens seasonally.

Dhiraj Dave: The second part of question is basically if you look at standalone and consolidated number difference, basically we see that at EBITDA level and net level there has been contribution from the other business, non-India and non-standalone actually there is a negative contribution, which have significantly large last quarter, so like if I just do EBITDA and difference between consolidated number and standalone September quarter it was Rs.4.41 Crores and as per my calculation it is becoming like -4 lakh at EBITDA level just a difference between standalone and consolidated. So any color what business how things are moving on those area because I understand we were looking at some kind of pickup and we could see good traction in last two quarters, but this quarter is it a one time or is it low event?

Hiren Gada: In the subsidiary there are at least three, four different entities so what you are seeing is amalgam of all those three, four entities. To give a more colour on that basically one of the business is airline distribution business where we own 65%, which is distributing content to the airline so airborne distribution so that is one of the businesses and other business actually we were creating some content, which was more on a combination of ad supported as well as syndication kind of thing again that was in joint thing that was where last year there was significant investment and to that extent it was at that point loss kind of situation. Now over the next period that content has kind of played out in terms of its revenue cycle so at this point that business is not significantly moving forward, the airline business is continuous to grow.

Dhiraj Dave: How we should look at medium term four to six quarters do we see breakeven happening or we will continue to see some more time to kind of it because if this quarter particularly if I look into September, there is good amount of deterioration in number. So how you see that kind of?

Hiren Gada: Overall again there could be some amount of seasonality over there also but in full year if I look at it I think we are hoping that in next couple of years we should have a decent positive contribution from subsidiary.



Shemaroo Entertainment Limited
January 24, 2018

- Dhiraj Dave:** Okay and last question from my side. What was the total debt as on you gave on September 30, 2017, but if you can share indicator number as December?
- Hiren Gada:** Lower than that I cannot actually give the number at this point, but it is definitely lower.
- Dhiraj Dave:** Lower and inventory you have given any number?
- Hiren Gada:** No, but I have said earlier when on an earlier question it also lower on December and September.
- Dhiraj Dave:** Thanks Sir. Wish you all the luck.
- Moderator:** Thank you. We take the next question from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** So the new media growth, which you are saying as suffered bit because of the YouTube is not scaling up so can you give me what is driving the growth, the other two segments specifically so that means others are growing much faster right?
- Hiren Gada:** Yes.
- Lalaram Singh:** So may I know exactly what is that thing?
- Hiren Gada:** As I said, broadly there are three different ways in which the revenue comes. One is to telco ecosystem kind of thing. Second is YouTube and third is syndication to the likes of Hotstar or Jio, Netflix, etc.
- Lalaram Singh:** So can you give some colour that which of telco ecosystem is that MVAS correct?
- Hiren Gada:** Yes it is MVAS both direct to consumer and on the operator deck.
- Lalaram Singh:** Which of these two or with would be driving more growth?
- Hiren Gada:** At this point both of them actually grown and that is really what has both of them have contributed more or less significantly to the overall picture so that has kind of helped the overall picture retain a decent growth rate.
- Lalaram Singh:** So that means Teleco ecosystem would contribute more than 50% of the revenues of the new media or digital media?
- Hiren Gada:** Yes.
- Lalaram Singh:** Okay and syndication around 15%-20%?



Shemaroo Entertainment Limited
January 24, 2018

Hiren Gada: Exact breakup I am not in position to give, but in fact it should be slightly higher, it should be in that range.

Lalaram Singh: Going forward do you expect syndication or telco both to grow as fast as they are growing now or basically I want to understand the levers of 40%, 30% growth which was saying in more detailed manner?

Hiren Gada: If I have to give a better detailing, the way we look at it is telco ecosystem to grow at that pace from this base obviously going to be difficult, so while it will continue to grow decently, we do not expect that to grow at the 40% plus or 45% plus rates, which it has been kind of growing. The syndication business could grow because there are many deals etc., happening but if that telco business kind of going forward kind of grows below 40% and which is why I was saying YouTube has to fire up further overall picture to continue to be above 40%.

Lalaram Singh: One question I had was the telco ecosystem was already exiting before what is causing the sudden spurt in that because you see data is getting free, people they are watching on YouTube okay that is driving the consumption, but in telco ecosystem what could be triggers for a sharp growth there, can you help us understand that?

Hiren Gada: Telco ecosystem for us has been growing that very handsome rates virtually for the last more than four to five years so that trajectory in fact has not significantly slowed down or anything of that I mean it has slowed down because the base has been growing up but the growth continues.

Lalaram Singh: Okay so there is no overlapping between if telco or if data driven free consumption grows so telco will not go as much as there is no cannibalization there or I am correct in that?

Hiren Gada: Overall if you look at least the larger player they all have kind of maintained their holding base of subscribers and by and large their ARPU in fact everyone data revenues have grown and stuff like that so if you look the whole ecosystem while Jio has come and given all the data at those costs including free for a long period and everything, but large part of the telcos have actually themselves braced up and at a level skilled so we have not seen any degrowth or anything of that sort. Of course one of the things we have so what has added or helped us further is that we have taken the business international so we have now an international presence in few country so that has also helped at a combined level or at a topline level it kind of helps to retail the growth momentum.

Lalaram Singh: Secondly in the mix, which is changing towards new media gradually and if I look at accounting principal, where if it is limited right I think you expensed 90% of the value in the first year right?

Hiren Gada: We do that for the traditional media portion. For satellite portion if we buy a bundle of rights we do it 90:10 to satellite and digital. In fact from April 1 of this that has been changed to 85:15.



Shemaroo Entertainment Limited
January 24, 2018

- Lalaram Singh:** Exactly that was the question because mix has changed significantly now?
- Hiren Gada:** Yes that has from the current financial year the fresh acquisitions would be done at 85:15.
- Lalaram Singh:** When you say current financial year is it FY2018 or you have started doing that already?
- Hiren Gada:** We started from April 1, 2017.
- Lalaram Singh:** Okay and this year we have shifted to 85:15 correct?
- Hiren Gada:** Yes.
- Lalaram Singh:** The earlier gentleman had asked about the subsidiaries so taking that forward may I know the nature of business is it very deal based there because we see in one quarter that is significant jump in?
- Hiren Gada:** One of them is slightly deal based business and other one is it continues like I was saying the airline business every month on month we service anywhere between 50 and 70 airlines so that is a steady state business, which is growing at certain pace. There is one business within that which is more deal-based business.
- Lalaram Singh:** Okay which one would that be getting a 10%?
- Hiren Gada:** What I was saying that we created certain content for ad-supported come paid ecosystem so that the monetisation of that content was essentially deal based.
- Lalaram Singh:** Also I think since our business one of the key thing is a balance sheet, I would be glad if you can share the inventory receivables and debt numbers, I mean which everyone is looking after right because that is one of the key monitorable for our company?
- Hiren Gada:** I am not at the liberty to share it. I gave some indication to the previous query also.
- Lalaram Singh:** It is going down of course but if we have the exact number I mean I do not think something, which is say competitive I mean.
- Hiren Gada:** It is not competitive but it is not very sizable because this is limited review so I cannot say number, which the auditor has not kind of put stamp on.
- Lalaram Singh:** Thanks.
- Moderator:** Thank you. We take the next question from the line of Varun Ghia from Equitree Capital Advisors. Please go ahead.



Shemaroo Entertainment Limited
January 24, 2018

Varun Ghia: My first question is with regards to the traditional media growth so should we assume that the 10%, 11% growth, which has been coming, is from the monetisation of the new content, which has been built up?

Hiren Gada: It both combination of existing library and fresh content acquisition, I mean it is a mix.

Varun Ghia: Okay so just wanted to understand that how has the monetization been going on and how will that impact the overall traditional media growth in the coming years?

Hiren Gada: If we look at traditional media till the June quarter was reeling under combination of demonetisation and GST and actually even July to September, they were kind of just coming out of it, but in anticipation and with a positive outlook we had started seeing a better demand and which is why we had lower March 2017 quarter and a flat June 2017 quarter, but even that time we had put out the hope that we should be doing traditional media for the full year at near double-digits. We are already at about 7.5% on traditional media and we think that should be achievable for the full year so overall if you look at it the business the broadcaster has a good outlook on advertising have had a confidence to invest in content and there has been therefore decent traction with all the other partners.

Varun Ghia: Okay secondly how do you see the debt reduction in the coming years like you may be having plan like you want to reduce the debt by a certain amount, if you can share the number?

Hiren Gada: Ultimate thought is that we should bring the debt equity down to probably about 0.2% to 0.25%, which is kind of a comfortable level and at that point, we will define whether we want to go full debt free or have certain leverage because if the cost of borrowing is low and you are earning IRR 18%, there is certain leverage available so that is something that we will figure out at that point.

Varun Ghia: 0.2% to 0.25% will be achievable within two to three years?

Hiren Gada: Hopefully that should be the target so one thing we are at this point at least internal thought processes is that, so the growth should get funded through internal accruals as much as possible and surplus out of that would go in for debt reduction. Now we really at this point in time not in a position to spell out or more than spell out key word what that need for capital is going to be, but the thought process is that hopefully in a two to three years overall debt equity ratio should come down to a reasonable level I mean.

Varun Ghia: Lastly how do you see the traction in the OC subsidiary results so airline and further deal based business?

Hiren Gada: The airline business has in fact been going reasonably well. We actually had decent growth both in terms of contents we did for example, we did Baahubali 2 and many big blockbusters on



Shemaroo Entertainment Limited
January 24, 2018

airline distribution so that has in fact helped us given us further boost in terms of reach so today we service more than 70 airlines depending on their respective cycles of acquisition or programming kind of cycle. On the other business that was at this point of time we are now looking at fresh creation on that we kind are just looking into consolidate on what is there so in that business it is not really at this point, we do not have a big future expansion plan for that particular business.

Varun Ghia: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Karan Taurani from Dolat Capital. Please go ahead.

Karan Taurani: I just wanted to get the breakup of your digital growth of 30%, which you are giving right now or 35%, which segments within that would grow below or higher than this 30% number?

Hiren Gada: You mean further next year?

Karan Taurani: Yes next year correct?

Hiren Gada: Firstly, we are not putting out of guidance for 30%-35% but what we think is that our target in fact, our effort will be to achieve between 35% and 40% only but for us to reach nearer to 40%, YouTube has to fire up and reach, show us the traction that we all have been looking for since the last about three odd quarter but others both should be definitely in good trajectory so at this point none of these businesses are looking like slowing down.

Karan Taurani: Okay so basically this MVAS and digital platform apart from it if I am not wrong?

Hiren Gada: The only thing about MVAS I will just put a little more clarification on that because the question also had come earlier is that domestic number at a point will look at probably slowing down, but the fact that we have added international markets in the last about four to six quarters that is something that will help us to sustain the overall momentum that is the intent or the strategy.

Karan Taurani: International market has involved what exactly is that?

Hiren Gada: We are running these telco VAS, mobile VAS services in a few countries like Sri Lanka, Thailand, Dubai, Kuwait, Nigeria, and South Africa etc.

Karan Taurani: But it will negative impact of the domestic one would be offset by positive impact of international MVAS is that right?

Hiren Gada: Yes.



Shemaroo Entertainment Limited
January 24, 2018

- Karan Taurani:** So they could grow in line with the average of 30%-35%?
- Hiren Gada:** That is what currently the way things are looking like.
- Karan Taurani:** Thank you so much Sir. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Veeral Desai from Anived PMS. Please go ahead.
- Veeral Desai:** Congratulations on the quarter. I actually had three or four questions. One was your obviously if we look at YouTube views that you guys have been clocking that has moved from about 10 Crores a month couple of years back to now about Rs.55 Crores a month so can you give us some qualitative flavour in terms of obviously the views numbers has gone up but the amount of time that people are spending on your channels how has that moved over the last couple of years and how much of this Rs.55 Crores hits or views per month are really monetizable?
- Hiren Gada:** Basically if I have to look at it one is so the first question was that how was it kind of panned out grown in terms?
- Veeral Desai:** It terms of quality?
- Hiren Gada:** Time spend what we are seeing in general time spend, actually time spend is again is an amalgam and it moves channel to channel. Certain channels see a very high time spend, which is in excess of actually 15 minutes, certain see actually an excess of 25 minutes time spend and certain channels actually may not have a very high time video itself, the length of the videos itself may be if it is just music video, it will be 3 to 5 minutes video for example. So in general I would say post Jio actually the time spend for us overall has actually one up but marginally. So I would say the engagement level has kind of stayed more or less where it was, but with an upward bias. This I am giving your generic statement there could be a little bit fluctuation between channels, but whether it is FilmiGaane or Shemaroo Ent., particularly if I have to say the two bigger channel where it is similar which is slightly upward bias.
- Veeral Desai:** The other question was zero sort of similar to what Kashyap had asked earlier in terms of the yield on the overall inventory and if I could just flip it into inventory turnover ratio, I think the optimum level we had prior to getting into the investment mode was more like 1.3% to 1.4% kind of inventory turn so by when do you think we can sort of get back to those kind of levels?
- Hiren Gada:** Hopefully in about three years.
- Veeral Desai:** The other question you are aware of the digital advertising so if you look at the industry number, they have ranged between 30% and 35% kind of growth for a fairly long period of time. Now last nine months we have seen an explosion of data and hence digital consumption in this country and



Shemaroo Entertainment Limited
January 24, 2018

if the media planners were to reallocate some part of their traditional spending to the digital side is there possibility that digital advertising growth could be an excess of 50% for let us say next couple of years?

Hiren Gada: While theoretically yes, practically I do not know whether it would actually happen or not in what way it would play out, which I think the reason why most industry experts are kind of taking it at 30%-35% and I will tell you there are two to three reasons for this. One is this whole things like YouTube brand safety question when it comes up it impacts the overall ecosystem view of the advertisers towards the overall ecosystem because on television or print for example, the advertiser is clear on what he is advertising on. Here if we not clear and in brand is getting associated with offensive content or hateful content and stuff like that, it actually many times a negative for us so that full cycle, which was positive virtual cycle of feeding had actually taken up pause and it affects the entire ecosystem that is one. Secondly, how it is being sold is another question because there is a lot of online selling and offline selling so this whole system still will take a certain time to evolve to settle the metrics to settle and stuff like that. So those are some of the reasons and of course do not forget that the media planners own allocation or reallocation will come in with a certain like because he will want to dig deeper into where this additional time spend is coming out of and stuff like that so first of time the data is made available and then it is crunched and actually done there is a certain lag. What you are saying it was a very good ideal scenario we would love to have it, unfortunately at this time.

Veeral Desai: Factoring that it your side?

Hiren Gada: So factoring that is one thing. Second I am still not seeing any ground movement in that.

Veeral Desai: Indicate that is going to happen.

Hiren Gada: Yes.

Veeral Desai: Okay and the other is sort of broad base of management so apart from Zubin just wanted to check who else has sort of joined us on the digital side and if you could talk a bit about areas they are working on and what are their specific KRAs?

Hiren Gada: We recruited Vaibhav from Jio. He is actually more on the product development and tech develop not exactly technology guy, but more product person to help us create some of the offerings in this space and put that together. Then we recruited Omprakash for the Whole Digital Marketing Social Media piece. We recruited Rahul Mishra as an overall marketing head, so Omprakash comes from Saatchi & Saatchi, Rahul Mishra is ex-BBC and prior to that of course we had Zubin, We had Kaushal from Disney UTV. Apart from that we have other from Sony, from Star, from Zee, from multiple Hungama many peer organizations of the sector including from Videocon d2H. We had Subhash Somani from Videocon d2H is handling the DTH services



Shemaroo Entertainment Limited
January 24, 2018

business and a lot of that is all I would say fixed to in fact bulk of these people are jointed 6 to 12 months back not even six some of them have joined some three to four months back.

Veeral Desai: Okay and lastly if you could just help me with the number of employees as on date and if you could also give me that number for the digital team?

Hiren Gada: The number of employee as on date would be upwards of 500 and digital team is around nearing now 200, around 180 actually.

Veeral Desai: Thanks I am done, Hiren. It was very helpful.

Moderator: Thank you. We will take the next question from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: Just a follow up. Thanks a lot. If I had to sum it up, you are looking at consolidating growth by and large or growth levels at least for the digital side and if I had to ask you what will trigger a fresh round of inventory purchase so is it more related to behavior of players such as Amazon, Netflix, do you foresee something like Jio phenomenon or may be reverse of that consolidating of that or would you see more internal innovations, when is the next inventory cycle you are going to begin for you what would drive that?

Hiren Gada: Actually to clarify said earlier also is that we would not stop buying so that buying will always continue. The question is that we are monetizing more than we are acquiring that trend for now at least I think based on and the fact that we have to see in the last about four to five years that we have built up the inventory and I mean inventories are financial impact what ultimately we build up the library so the whole content library investment build up that has happened and I think the big ramp up of scale up is place. The marginal additional thing that at least that is visible right now is more incrementality and that would get funded out of the monetization of this library.

Ankit Pandey: Okay so you do not see any major developments coming from the Amazon?

Hiren Gada: Nothing in the immediate future, I mean whatever is there it is normal course of business we are acquiring and we are monetizing on that. For example like we discussed about acquiring the airline rights of Baahubali 2 that business will require a certain flow of content and that is available and it is getting monetized. It is not extraordinary in terms of build up to the inventory and the impact to the inventory and in that sense we are looking at we should get into the normalized trajectory of acquisition and monetization.

Ankit Pandey: Okay but could you talk a little bit about the internal innovations that you are focusing on or what areas they could be is it really total kind of content that we have it on?



Shemaroo Entertainment Limited
January 24, 2018

Hiren Gada: Innovation it is a little premature to talk about but indicatively if I have to put it so we are focusing on multiple aspects of looking at innovations so obviously one is in terms of what we do to the content in terms of refocusing and things like that. Second would be what is the interface with the platforms and what innovation we are able to bring there in terms of certain offerings like what we created for example for the DTH ecosystem or things like that and third is if there is any other newer innovation in terms of model in terms of the business model the consumer model I think all of that is kind of being looked at.

Ankit Pandey: The last part is that model apart where you said, are you exploring B2C model is that correct?

Hiren Gada: Not exactly a B2C model and particularly definitely not right now for the film business, but there are other elements within it so for example the devotional business, they are many innovations possible and definitely we would look at exploring over there so that is just one example I am giving you so similarly there could be other things.

Ankit Pandey: Thanks so much and all the best.

Moderator: Thank you. We will take the next question from the line of Yogansh Jeswani from Individual Investor. Please go ahead.

Yogansh Jeswani: Thanks for the opportunity. Sir my question is with regards to the change in music rights so now the rules or that we no longer get music rights along with the movie and all those rights stay with the composer and then the finally monetize it using the music publishing company so my concern here is like with this changed scenario is it significant affect on the strategy that we have in terms of acquiring content for our flagship channel like FilmiGaane or what exactly this changed rule throws a challenge?

Hiren Gada: Firstly this rule is I mean what you said is actually not the current interpretation of the rule, but let me put it in a different way. Firstly this rule itself is applicable only for fresh content that is being created and we have shared earlier also so in the past and I will repeat that the film songs, videos, so song videos content, the trade practice till the year 2000 was that the producers retain the rights to the music videos of the film and post 2000 the music labels are retaining it so anyway whatever fresh contents we are acquiring, we are not getting any of the music rights along with that and in fact we have actually made that into a strength rather than weakness by positioning FilmiGaane has the largest Bollywood retro destination on YouTube. That has really worked very well and playing exceedingly well. As far as FilmiGaane is concerned, the positioning it has this new Copyright act does not change anything. Copyright act by the way I have been in fact for at least about three years now.

Yogansh Jeswani: Sorry to interrupt you on that but my point was more of on that note, it is just that now that you do not get content so does that mean that we have to spend more on getting such content not now



Shemaroo Entertainment Limited
January 24, 2018

but going forward in the future we will have to add on some more videos or some more content to that so how is that play out?

Hiren Gada: Music overall as an industry the music monetization is less than 10% of the film monetization so music is one of the significant driver of the economics in any case. So for us the whole play available is through the retro content which is through FilmiGaane and that is how we have been looking at it and that does not stop us from acquiring the full film post that vintage so therefore we have movies like Ajab Prem Ki Ghazab Kahani, Jab We Met or Golmaal or Golmaal Returns etc., which were value wise if we look at it then music towards this film itself is literally a 1:10 difference.

Yogansh Jeswani: Okay so basically if need we can acquire music rights too?

Hiren Gada: Do not get me wrong. What I am saying is that our focus on the music business so we are firstly so we are not even music label and our focus is on that part of the business is not there itself; however, given the fact that we had acquired the movies of pre-2000 vintage where the music videos rights come along with it we used that what I shared earlier the whole refocusing, slicing dicing on the content and created the FilmiGaane opportunity and channel that does not get affected by any of these new copyright act provision.

Yogansh Jeswani: Sir how is the next set of content for this FilmiGaane channel or for the channel similar to that will come up from that is something that I would like to understand?

Hiren Gada: FilmiGaane it is going to remain a retro channel. FilmiGaane retro channel does not change. I do not need to acquire whatever Padmaavat movie music rights for FilmiGaane.

Yogansh Jeswani: That is understood Sir.

Hiren Gada: So that I do not need to and what I am using right now it is something, which is coming to me as a natural part of what I am acquiring and I am factoring that in to my acquisition costs as well and if I do not have the music rights available then it is not into the cost.

Yogansh Jeswani: Perfect understood Sir. Thank you so much.

Moderator: Thank you very much. Well that was the last question for today. Ladies and gentlemen on behalf of Dolat Capital that concludes this conference call. Thank you all for joining us. You may disconnect your lines now. Thank you.