



Eros International Media Limited

Q1 FY16 Earnings Conference Call Transcript

August 17, 2015

Moderator Ladies and gentlemen, good day and welcome to Eros International Media Limited's Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of CDR India. Thank you and over to you sir.

Anoop Poojari Good afternoon everyone and thank you for joining us on Eros International Media Limited's Q1 FY 2016 Results Conference Call. We have with us Ms. Jyoti Deshpande – Executive Director of the Company, Mr. Dinesh Modi – CFO and Mr. Abhay Bhalerao – Head, Investor Relations of the Company. We will begin the call with brief opening remarks from the Management following which we will have the forum open for an interactive question and answer session. Before we begin, I would like to point out that some statements made in this call today may be forward looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Ms. Jyoti Deshpande to make her opening remarks.

Jyoti Deshpande Thank you Anoop. Good afternoon everyone. A very warm welcome to all of you and thank you for joining us on this call to discuss Eros International Media Limited's operating and financial performance for Q1 FY 2016..

We have indeed started off the year with a bang reinforcing our market leadership position within the Indian media and entertainment sector. The performance also reflects the success of our strategy to invest in a portfolio of high-quality film content, diversified first of all, across Hindi and regional languages and secondly across high medium and low budget films and monetizing it across existing and emerging revenue streams backed by strong presales.

I am pleased to report that during the quarter total revenues increased by 96.5% to Rs. 4,806 million. EBIT increased by 60.7% to Rs. 963 million. PAT grew by 48.9% to Rs. 534 million and diluted EPS grew by 46.7% to Rs. 5.7. We released a total of 16 films in the quarter and the performance was mainly attributable to strong theatrical revenues which contributed 51.5% of the revenues underpinned by the blockbuster success of Tanu Weds Manu Returns, a medium budget film that did over Rs. 2.6 billion box office worldwide, as well as strong presales in line with our core de-risking approach for Uttama Villain and Masss, our high budget Tamil releases in the quarter.

Overseas accounted for 27% of our revenues and 21.5% of the revenues came from television and other ancillary revenues demonstrating continued contribution



from TV sales and monetization of our catalogue. Some of the other notable films in the quarter were Dil Dhadakne Do and Gabbar for overseas.

Having talked about this stupendous topline growth and profitability, I would like to spend some time explaining the operating margins and the outlook for the same. I want to reiterate that our business should not be strictly measured on a quarterly basis as the pattern of film slate mix each quarter as well as the catalogue contribution of each quarter change year-on-year. Catalogue contribution generally tend to start slowly around 10-12% of revenues in Q1 growing to about 16-18% in Q2, generally 22-24% in Q3 and they can be as high as 30% in Q4 as these are bundled deals and we tend to get benefit of the full new release slate to push the catalogue only towards the end of the year.

Our EBIT margin this quarter of 20% compared to 24.5% in the previous year is mainly attributable to a sale of inventory of digital rights to our parent company of Rs. 1,440 million on arm's length basis which also explains the higher than normal revenue growth and corresponding higher cost of sales. Adjusted for the sale, the revenue grew at 37.5% instead of 96.5% and EBIT margin actually grew by 2% to 27% instead of dropping by 4.5%. The outlook for EBIT margins for the year continues to be in the 25-27% range, which is extremely healthy for our Company even compared to our industry.

The other point I want to clarify is the structure for ErosNow, which is housed directly under our parent company Eros International PLC. ErosNow, which as of end July post its official marketing launch last month, has garnered 26.5 million registered users worldwide and has announced its lineup of original content and TV se Pehle disruptive windowing strategy. Eros International Media Limited will be a content provider for the parent's digital business for supply of films, aggregating third-party content where the film, music or TV as well as production of high quality original content leveraging its industry relationship. These dealings will be as per transfer pricing norms and entirely at arm's length similar to how the overseas rights are sold to the parent. So while Eros International PLC will invest in the digital business with a long-term view for value creation coming from subscriber growth as we await 4G rollouts and broadband penetration in India, Eros International Media Limited will immediately start benefiting from strong cash flows from content licensing. We have a Big Four accounting firm engaged for the overall transfer pricing study and benchmarking and we will offer more specifics about it in the coming quarter once it has gone through internal and external compliances.

I want to reassure shareholders of Eros International Media Limited that the parent Company's interests are totally aligned with the India group and any arrangements will be fair at arm's length and in the overall interest of both sets of shareholders. Sometime in the foreseeable future, markets and regulations permitting, we will explore an IDR kind of a structure for Eros International PLC, which will not only allow us to maintain the Indian listing in addition to the NYSE listing that has brought so much value to the Eros group but all shareholders can be aligned at the same level. Until then the shareholders of the Indian group can rest assured of complete transparency and the highest form of governance from us like we have maintained in our history as a listed Company and we are committed to the creation of shareholder value with whose support we have achieved our dominant market leadership position.

Now quick outlook for the remainder of the year. Q2 promises to be the biggest quarter of the year for us with Bajrangi Bhaijaan shattering all possible records and grossing over Rs. 3.1 billion in India alone and over Rs. 2.2 billion internationally. Srmanthudu, Mahesh Babu's Telugu film, again has crossed over Rs. 1 billion and rose to become the second highest grossing Telugu film after Baahubali. Then we have Welcome Back, Hero, Life of Josutty, from the maker of Drishyam yet to



release in September, which augers for a strong set of numbers for the second quarter.

Q3 is pegged around the magnum opus Christmas release Bajirao Mastani which we expect to take to a wider international market apart from a 4000+ screen release in India. Q4 has planned releases such as Telugu film 'Dictator' starring Balakrishna, directed by Sriwass, Pawan Kalyan's Sardar which is the sequel to the hit Telugu film Gabbar Singh as well as Suriya's 24, a much awaited Tamil film. Trinity Pictures, our division for in-house IP creation will also announce its franchise film slate in the coming quarter. We also hope to progress our exciting Chinese co-productions during the year and will announce details soon.

This year we have invested in Hindi, Tamil, Telugu, Malayalam, Bengali and Marathi films so far and it is our ambition to expand the film slate from 65-70 films a year to 100-120 films in the next 3-5 years. Our investment in content capex outlook for the year continues to be 1,000 crore to 1,200 crore similar to last year. Investing in content and harvesting from the monetization of our new release and growing library content across traditional and emerging distribution channels remains the heart of our strategy. To maintain and widen our leadership within the Indian film industry and we will demonstrate generation of strong cash flows in the near future and remain committed to enhancing shareholder value.

With that, I will pass over to Dinesh Modi, our CFO, to walk you through some more details of the financial performance this quarter and we will take questions after that. Thank you.

Dinesh Modi

Thank you Jyoti. Good afternoon everyone and thank you for joining us today. I would be briefly taking you through the Company's operating and financial performance for Q1 FY16.

We are pleased to report another robust quarter for Eros International. In Q1 FY16 the total income stood at Rs. 4,806 million reporting an increase of 96.5% on a year-on-year basis. Adjusted for Rs. 1,414 billion, one-off sale of third-party digital content to Eros International PLC Group Company, the revenue saw an increase of 37.5%. The growth was primarily driven by strong theatrical performance of our movies, sustained traction in the television and overseas business segment. During the fiscal, theatrical segment contributed to a 51.5% of the revenues, overseas segment contributed to 27% followed by television and other segment at 21.5% of the revenues. Theatrical segment during the quarter saw release of over 16 new movies comprising of 7 Hindi and 8 Tamil or Telugu and one other regional languages film as compared to 9 films during Q1 FY15, which included 5 Hindi and 4 Tamil or Telugu films. Of the 16 films released in Q1 FY16, 2 were high budget films, 3 were medium budget films and 11 were low-budget films as compared to 1 high budget film, 3 medium and 5 low budget films in Q1 FY15.

Direct cost during the quarter stood at Rs. 3,621 million including 1,351 million of content amortization as compared to Rs. 1,704 million of direct cost in Q1 FY15 which included Rs. 879 million of content amortization. Earnings before interest and tax during Q1 FY16 significantly improved by 60.7% year-on-year to Rs. 963 million as compared to Rs. 599 million in Q1 FY15. EBIT margins stood at 20% in Q1 FY16 as against 24.5% in Q1 FY15. Adjusting for one-off items as described earlier, the EBIT margins stood at around 27% that is an increase of close to 2% compared to corresponding quarter.

PAT during the quarter stood at Rs. 534 million registering a growth of 48.9% compared to Rs. 358 million in Q1 FY15. I would like to highlight here that in this quarter as a prudent measure we have taken an additional tax charge of Rs. 46.3



million towards deferred tax liability. This was on account of change in effective corporate tax rate from 33.9% to 34.61%.

To conclude, our well-funded film slate, proven portfolio approach and robust library monetization strategy should enable us to deliver a strong operational and financial performance, going forward.

This brings us to the end of our discussion. We would now be happy to discuss any questions, comments, or suggestions that you may have. Thank you.

Moderator

Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Urmil Shah from IDBI Capital. Please go ahead.

Urmil Shah

My first question is on the regional movies, the first quarter slate looked strong and the FY16 slate looks very strong. How should we look at the mix of movies over a longer period of time? We have been also buying third party Hindi content to build our catalogue, should we also expect that to pick up over a longer period of time in regional market?

Jyoti Deshpande

Yes, very much we want to expand our regional slate as well. So over time if we are doing 100 films or 120 films in the next 3-5 years in terms of quantity, we believe regional will outnumber Hindi, so we may still have 30-35 Hindi language films, of which 6-8 can be big films, the rest can be medium budget films and smaller films. And the balance will be 10 films in each of those other languages again split between high, medium, low budget films where Tamil, Telugu, and Malayalam are in a different speed compared to say Bengali and Marathi, which are just starting off and are much smaller in size. In terms of quantity, in a 5 year period, the regional slate will look more but in terms of revenue contribution it may come to 60-40 in favor of Hindi and over time, it may even look at 50-50 depending on how regional markets also grow. The reality is when you start putting money into these markets, those markets also start corporatizing, start expanding, start making more family-oriented films and the business starts to grow, and the size of the market starts to grow. We think all our efforts are pioneers in this business is to try and grow the size of the market with our efforts and what we are doing in the industry and automatically our market share grows along with that and we stand to gain the most. On Catalogue acquisition, ongoing we are opportunistic. Just by expanding the new release slate itself, it goes into our catalogue the next year, so we keep augmenting our catalogue. Whenever we are making new release deals with our co-producers, etc., we are looking to see if we can acquire 10 films or 50 films here and there and we keep adding to our catalogue. Given the digital strategy, we will continue to look for opportunities to buy catalogue and it doesn't mean just digital rights, it will mean negatives of films which have all exploitation rights including television and digital.

Urmil Shah

Right now, we do a lot of presales and at times the upside is also capped when a movie does well. When should we expect a structure which is similar to that of Hindi movies, in the regional markets?

Jyoti Deshpande

One of the reasons why we prefer presales is because of the lack of transparency, relative to Hindi, in the Tamil market because there are rarely sub- distributors and it is more skewed towards single screen box office and less towards multiplexes, which are restricted to just cities. So, we are really dependent on collecting monies from individual theatres, if we were to self-distribute. In the short run, while we are learning about the market and are working with exhibitors, we know that our multiplex operators are also looking to expand in the south given that they have pretty much exhausted the metros of the Hindi belt, and now they are going into Tier-2, Tier-3 towns in the Hindi belt and looking at the south. So in the next 2-3



years, you could see slowly but surely some films for distribution, but the presales strategy will continue until the market becomes more transparent and that is actually a prudent and wise decision for the Company.

- Urmil Shah** On ErosNow, given that the subscribers have picked up and over the next year, FY17, should expect high speed data also to pick up. What are the kinds of engagement models between India and ErosNow, should we be expecting? You said that you would share it once the transfer pricing analysis is done, but what are the monetization options which you think would be available to Eros India?
- Jyoti Deshpande** Eros India will supply all the movies. If we need to aggregate third-party content, then Eros India will do that, because relationships sit with Eros India in the film industry. If we want to make original TV series, shows like 13 part series, similar to what Netflix and Western content has been making, so we announced Khel which is based on IPL, we announced a serial called The Client with Bipasha Basu. So that kind of content will be made by Eros India. There will be an arm's length arrangement, how much markup and all those details. So kindly allow us one more quarter and in the next earnings call, we will try and share more details about the specifics of that once it's gone through the compliances.
- Urmil Shah** So all content would be acquired by the Indian entity and then transferred to ErosNow?
- Jyoti Deshpande** Yes.
- Urmil Shah** Could I get the absolute EBITDA number for this quarter, excluding the content for ErosNow?
- Dinesh Modi** About 25%.
- Urmil Shah** EBITDA amount number?
- Dinesh Modi** I will share it offline
- Moderator** Our next question is from Sanjeev Hota of Sharekhan. Please go ahead.
- Sanjeev Hota** After completion of the movies and the distribution, do we then take these movies like Srimanthudu and Aagadu. What is the strategy over there because the risk is low but the budget is also low in picking up of those movies? Could you give us some more color on the strategy over there?
- Jyoti Deshpande** It doesn't matter what stage of the film it is in, in fact we prefer to get involved with movies in the regional market once you know that it's 50%+ complete, because what they tend to do is they borrow on hundi for local moneylenders and then start off a film, so you know that the film is definitely going to be complete. After that, you sit down with the producer, get involved and make a deal and then get an idea of the kind of presales you are going to get for the film and then you take away all the rights, such as the digital rights and also keep the derivative rights to remake it, etc.,. So these are opportunistic deals and it doesn't matter whether you get involved a month before the release or two months before the release or six months before the release, the deal is the same.
- Sanjeev Hota** On the release of Bajirao Mastani, we have only one week window, if I am not wrong. Dilwale is releasing on 18th December and Bajirao Mastani is a Christmas release so we are just getting one week window only, and we are talking about

4000 screens., If Dilwale is going to be really successful so isn't there a risk that we are not getting the requisite screens that we want?

- Jyoti Deshpande** I cannot comment on when Dilwale is releasing. We have announced our release date of 18th December and we have actually blocked the screens. So all the single screens that we need for our film, have already been blocked along with Tanu Weds Manu Returns and Bajrangi Bhaijaan. Internationally we have great plans to release this film. So we will be taking advantage of 18th week as well as 25th week and we are all set to take this movie to the next level.
- Sanjeev Hota** So Bajirao Mastani is releasing on 18th and not on 25th?
- Jyoti Deshpande** It's an 18th December release.
- Sanjeev Hota** So it's releasing in around 4000 screens?
- Jyoti Deshpande** Yes, definitely.
- Sanjeev Hota** On the EBIT line, could you give the absolute number because Rs. 144 crore is deducted from the topline so it should be line by line deducted from the cost of sales also?
- Dinesh Modi** Yes. So it would be a lower number than Rs. 144 crore. EBIT number is Rs. 96 crore.
- Sanjeev Hota** You have already given an outlook for the EBIT margins of around 25-27% for FY16. But could you give some more sense on the tax rate because it was like very lumpy in the last year and this year you started with 27.9%, so what kind of tax rate can we assume for FY16? Last quarter, you commented about 24%.
- Dinesh Modi** On an annual basis, we would be around 25%, so last year we were 23.6% and this year we are expecting to be around 25%.
- Sanjeev Hota** So it will be higher than what we have commented of 24%?
- Jyoti Deshpande** This is because the differential rate, which went up by 1%. So deferred tax liability of a certain number was created because of that there is 1% differential in the tax rate.
- Sanjeev Hota** It is there in the presentation.
- Jyoti Deshpande** So instead of taking it across the four quarters, we chose to take a hit in the first quarter itself, which is why you are seeing that impact in the first quarter. But for the year, 24.5% or 25% tax rate should be good.
- Sanjeev Hota** That will be good for FY 17 as well?
- Jyoti Deshpande** Yes.
- Dinesh Modi** There will be no change in the tax rates.
- Sanjeev Hota** Was there any one-off in the other Income part, because last quarter there was some one-off in the other Income. This quarter for Rs. 8 crore, is there any one-off over there?



- Dinesh Modi** There is some interest income and Forex gain, so depending on Rupee movement, there may be some movement on that side but otherwise the number remains.
- Sanjeev Hota** So can we take around Rs. 5-6 crore kind of run rate for over next 2-4 quarters?
- Jyoti Deshpande** Please leave a margin of error of at least Rs. 5-6 crore
- Sanjeev Hota** Last question is a bookkeeping question on cash and debt, if you can share?
- Dinesh Modi** Overall situation has been improving, our debt and EBIT ratios are on the track. We have not shared the numbers but by Q2, when we share the balance sheet numbers you should see an improved position.
- Sanjeev Hota** Last quarter, debt was Rs. 487.5 crore and cash equivalent was Rs. 173 crore, so that remain the same or it has come down?
- Dinesh Modi** That remains almost the same.
- Sanjeev Hota** Do we still maintain that by end of FY16, we will be free cash flow?
- Jyoti Deshpande** That's the outlook as of now.
- Sanjeev Hota** On this collaboration with the Chinese state-owned movies, what kind of budget that movies will be?
- Jyoti Deshpande** The movies will not exceed \$ 25 million of budget.
- Sanjeev Hota** We would still maintain the content capex for FY16 to be around Rs. 1,250 crore?
- Jyoti Deshpande** Rs. 1,000 crore to 1,200 crore.
- Moderator** Our next question is from Gautam Chhaochharia of UBS. Please go ahead.
- Gautam Chhaochharia** First some clarification on ErosNow, because we remember looking at the Eros International presentations even before the listing of PLC. You always talked about ErosNow in the Eros International presentations. So has this always been part of Eros PLC or was it some kind of restructuring exercise which was done?
- Jyoti Deshpande** Restructuring was done because the kind of investment required for this is something that we thought Eros India doesn't want to do and is more of PLC, because it's a long-term investment for it to get back the investment. So Eros India preferred to have an arrangement similar to how overseas is, where it's a content supplier and benefits from the immediate cash flows from the parent and the parent will take the long-term view of where to take ErosNow.
- Gautam Chhaochharia** Earlier ErosNow was part of Eros International?
- Jyoti Deshpande** Basically, earlier India revenues sat in India and overseas revenues sat in overseas.
- Gautam Chhaochharia** The ownership of the entity as such?
- Jyoti Deshpande** There was no entity. The entity is newly created.



Gautam Chhaochharia It was a division which became an entity and that's now housed under PLC basically?

Jyoti Deshpande Yes.

Gautam Chhaochharia Going ahead, except transfer pricing issues, the revenue from Indian subscribers will be booked to Eros International or all their revenues will go to ErosNow from now on?

Jyoti Deshpande All the revenues will directly go in the new structure.

Gautam Chhaochharia What about when you give up exclusivity to TV channels and first show it on ErosNow, there is obviously going to be some loss of revenues for Eros International, so how do you propose to factor it in, in terms of transferring the digital rights?

Jyoti Deshpande As of now, 'Tanu Weds Manu Returns', etc., what we premiered, we managed to get the full price from the channel that we licensed it to. But in the future if that has to happen, if cannibalization were to kick in, which we don't expect unless ErosNow suddenly has 100 million subscribers and becomes very successful, but if that happens then what we will do is ErosNow will compensate Eros India for the difference of what it would have got, had it sold without this carve out.

Gautam Chhaochharia The digital rights transferred in Q1 FY16 is Historical digital rights or is this just pertaining to the first quarter?

Jyoti Deshpande It's historical on a non-exclusive basis because already monetization licenses were created by Eros India for those.

Gautam Chhaochharia What were the margins it was transferred at?

Jyoti Deshpande A nominal margin, not a very huge margin because the rights itself were non-exclusive.

Gautam Chhaochharia In terms of the film rights costing accounting, earlier we saw that 30% was expensed and the remaining 70% was amortized in first year and the rest was amortized in remaining 9 years. But this year, the annual report number indicates something different, is there any change in accounting?

Jyoti Deshpande Not at all, the accounting continues to remain the same.

Moderator Our next question is from Jigar Shah of MayBank KimEng. Please go ahead.

Jigar Shah Have we booked the satellite right sales revenue of Tanu Weds Manu Returns in the first quarter?

Jyoti Deshpande Yes.

Jigar Shah The kind of subscriber buildup that we have seen in ErosNow on a quarter-on-quarter basis is fantastic, so what is behind this? How have we been able to manage this kind of an increase and what more strategies are in store? Can you give us some indication in terms of what will be the buildup of these by the end of the year?



- Jyoti Deshpande** This is the wrong group to talk about the B2C model because it's under the parent company. I want to be clear that I'm not misleading anyone. But the registered user is not necessarily subscriber so we are careful to call them registered users. So these are the number of people who are creating a valid registration either downloading the app or going online and creating a registration so we have their details. The effort is how do we convert them to paying subscribers, either transactional or monthly paying subscribers and that is the whole marketing and content effort around. We think the registered users base can be a very large number because your total universe is on the mobile itself. Of the existing 800 million mobile subscribers, almost 25% of them currently are smart phone users. So that's a low hanging fruit. Over 10 million out of the 14 million NRIs, is a low hanging fruit. We think in terms of registered users, the number can be very large in the next 3 to 5 years even in excess of 100 million. But what percentage of that we convert to monthly paying subscribers, will be driven by 4G growth, broadband growth and all of that because the user experience needs to be of a certain level to encourage people to pay.
- Jigar Shah** How have you been able to increase the registered users so much in fairly short period of time?
- Jyoti Deshpande** One of the things is that we started was the official marketing launch, so we did get significant push in just the one month after the launch. Secondly we have been marketing it virally and digitally. ErosNow has been marketed on social media. The other thing that we are trying to do, is for example the Bajirao Mastani trailer, we tried and kept 24-hour to 48-hours exclusive for ErosNow. We promote and drive traffic to ErosNow with our music, our trailers etc. On top of that, we acquired this company called Techzone. Again, Techzone has access to 14 million subscribers that go through it backend, through its telecom integration and we have been marketing to those subscribers whether through SMS marketing or other kinds of marketing and slowly converting a small percentage of them as well each month.
- Jigar Shah** When you premiered Tanu weds Manu Returns and Badlapur etc. on ErosNow, how was the response?
- Jyoti Deshpande** The response was very good. I think still the base is not very high but a large percentage of the base did come and access the content. If we can continue and sustain the promise, we think that it should be successful. However it should be noted that we had kept it free and we did not charge anything for Tanu weds Manu Returns. Our current focus is less on monetization, more on land grab. We just want to convert as many people as possible and create the stickiness to ErosNow and we will worry about monetization in the years to come.
- Jigar Shah** I am unhappy to hear that because I am a subscriber, so you should keep it only for payment.
- Jyoti Deshpande** I wish the nation speaks in your voice.
- Moderator** Our next question is from Vinay Pahariya of Religare Invesco. Please go ahead.
- Vinay Pahariya** The debtors in the consolidated balance sheet have gone up pretty sharply this year, so what was the reason for that? I am looking at the March end balance sheet.
- Dinesh Modi** There were 3 to 4 reasons, mainly the revenue had increased in the last 2 quarters of FY15 and with that, we have improvised sale on the catalogue so that pushed up the overall debtors.



- Vinay Pahariya** So was it because of catalogue revenues going up?
- Dinesh Modi** Yes and the overall revenue in the last 2 quarters of FY15 were high and also the overall revenue was higher for FY15, so all three together was the reason for higher revenues.
- Vinay Pahariya** I presume that some of it should normalize in the first half of this year.
- Dinesh Modi** Yes so there is an improvement on the overall debtor side and we will be publishing numbers in Q2, when we come out with the balance sheet.
- Vinay Pahariya** The second question is related to the advances from related parties. I presume that's from the international entity which is at Rs. 724 crore as on balance sheet debt. What is the principle regarding the content advances, which we get as interest-free loans? Is this an ongoing feature, what's the principle behind that?
- Jyoti Deshpande** That balance has come down as of this quarter. Large number of films were delivered against that balance in this quarter. The 30% with the 30% mark up, whatever that makes up for the films that are delivered in any given quarter, that amount is adjusted against the balance. This is done on a rolling basis; it's not that because the money is there you will only adjust. If Eros India has a working capital gap and requires some funds, we will still transfer those funds to India against an ongoing rolling balance against the future film slate. It goes up and it keeps getting adjusted down, so the outlook now is that given Eros India's strong cash flows we should see this balance coming back down as Eros India keeps generating strong cash flows.
- Vinay Pahariya** It keeps drawing down as and when we keep delivering content?
- Jyoti Deshpande** Correct, so if you see the balance 4-5 years ago it used to be very high and then it came down to next to nothing over the last year and then it again went back up.
- Vinay Pahariya** It goes up in spikes.
- Jyoti Deshpande** Yes.
- Moderator** Our next question is from Pavan Ahluwalia of Laburnum Capital. Please go ahead.
- Pavan Ahluwalia** You had indicated that it would take a quarter for you to give us a sense on what exactly the arrangement would be for arm's length pricing. In the next 1 or 2 quarters, I am assuming we can expect a clear articulation of who will be making that decision as to what prices the transfer pricing would happen at. You also made a statement earlier that you would hope that some point of time to be able to come up with the structure that would align everybody's interest, the shareholders in the Indian as well as in the US entity. Over what time frame can we expect that to happen?
- Jyoti Deshpande** Currently, the only IDR in the market is the Standard Chartered IDR, which is not a role model or which we don't see as a role model. We hear from bankers and lawyers that the regulations are undergoing change and the Indian government wants to attract more companies who could potentially do an IDR. There are not too many companies out there; we are definitely one of them. We hope in the next 1 or 2 years this could become a reality because then we really would like to maintain a listing in India. We are less concerned about whether it's the Indian subsidiary or the PLC. We like the Indian listing, so an IDR would work for us. But



regulations in those markets permitting, 1 or 2 years, otherwise we will continue with the existing structure.

Pavan Ahluwalia But the intention would be that you would want everyone to hold the same share the way an Infosys or a TCS hold in India or US, of course that is ADR and not IDR. But that is the overall philosophy?

Jyoti Deshpande Exactly right.

Pavan Ahluwalia The entities are basically different entities, you're tying up the merging two entities and then creating a separate but equal shared class, so there would be the one-time issue of the terms on which the merger takes place. But once that happens, it will be everyone being treated at par.

Jyoti Deshpande Exactly so that is the spirit and that is the intention. It's not super straightforward so hence what we want to tell you is we are thinking about it already.

Pavan Ahluwalia If that were not to happen then you would have a very clear policy on transfer pricing, etc. which you will articulate in the next 1 or 2 quarters and that will govern the relationship between the two entities, going forward?

Jyoti Deshpande Exactly, immaterial of whether the IDR is happening or not, we will ensure that in the next 1 or 2 quarters, ideally 1 quarter we will share with you very clear transfer pricing norms which will be more than fair to the Indian entity.

Moderator Our next question is from Sneha Agarwal of ICICI Securities. Please go ahead.

Sneha Agarwal What kind of satellite monetization have we got for Bajrangi Bhajjaan, if we have clinched the deal already?

Jyoti Deshpande Bajrangi Bhajjaan, the deal was without satellite that is Salman Khan's fees.

Moderator Our next question is from Srinivas Seshadri of Antique. Please go ahead.

Srinivas Seshadri Following up on the IDR commentary, you mentioned that there are certain bottlenecks as far as doing it seamlessly is concerned. Could you talk about those specific issues?

Jyoti Deshpande I don't think there are any bottlenecks, for example Standard Chartered has done it. But it is not viewed by you all and the rest of the market as a very attractive and successful model in terms of trading. You maintain listing, so that stock is actively traded, so more companies needed to follow which did not happen. So there are regulatory changes under discussion, which could make it more attractive. We hear this from the lawyers, the accountants and the bankers. We are monitoring that and there are no bottlenecks. It's just attractiveness of the structure.

Srinivas Seshadri What are the changes that works as far as the IDR is concerned?

Jyoti Deshpande Some of it is public domain information, if you speak to Amarchand Mangaldas or any of those top law firms, they will be able to tell you what the government is currently thinking along those lines.

Srinivas Seshadri On the 25% to 28% EBIT margin guidance for the current year; is that exclusive of that one-off transaction which happened in the Q1 or are you talking about a reported number?



- Jyoti Deshpande** With the catalog sales and all of that, we should be able to maintain the margin in spite of Q1 FY16. We think it will normalize for the regular business throughout the quarter. But I had said 25% to 27%.
- Srinivas Seshadri** Given that we have done just about 19% in Q1 FY16, we should be doing much above that range for the remaining three quarters?
- Jyoti Deshpande** Yes because the catalogue follows the new release slate because of the bundle contract nature so the first half is light on catalogue sales and the second half is disproportionately higher on catalogue sales.
- Srinivas Seshadri** So that should help catch up on the margin side?
- Jyoti Deshpande** Yes. Going back to the debtors' point, the last quarter typically is heaviest on catalogue and catalogue tends to have stretched out payments. So it doesn't flatter the receivables in the last quarter but it normalizes in the first two quarters.
- Srinivas Seshadri** Given that this quarter, anyway we have delivered quite a lot to PLC and there should be some kind of an advance reduction from them based on both new releases as well as the transaction we have done separately for them. Any number you can guide to in terms of steady-state kind of financing?
- Jyoti Deshpande** It has come down to around Rs. 600 crore now.
- Srinivas Seshadri** Would you expect it to stay at those levels or move up or down?
- Jyoti Deshpande** No, we expect it to go down now in this quarter.
- Srinivas Seshadri** What can we model as a steady-state funding, is there any overall range?
- Jyoti Deshpande** It depends if suddenly Eros India wants to green light a whole bunch of films again, then it will go back up. If Eros India is using Bajrangi Bhaijaan and all those existing cash flows to green light further and there is no working capital gap then the balance keeps coming down. But if there is peak activity and there is a working capital gap then the balance goes back up slightly.
- Srinivas Seshadri** On the original shows, you mentioned you will be producing on the ErosNow platform. Will this be a cost plus exercise for the Indian entity or is there some structure whereby you again do some allocation plus margin. Then how does the revenue get split if it is not pure cost plus exercise?
- Jyoti Deshpande** The programs itself will be a cost plus, where say a program costs \$2 million to make then it will be a cost plus arrangement. But we are trying to work out a mechanism where overall like in the overseas arrangement, there is some element of upside based on some milestone, etc. to Eros India. If in the next 3 to 5 years, the whole thing becomes a grand success then we are trying to find a way to give some upside to Eros India as well.
- Srinivas Seshadri** So we can have some kind of overflow mechanism?
- Jyoti Deshpande** Yes.
- Srinivas Seshadri** But at this stage, it's not a case where like if an Indian subscriber watches ErosNow that revenue will accrue to India, we are not thinking on those lines as of now?



- Jyoti Deshpande** No.
- Moderator** Our next question is from Rohit Dokania of IDFC. Please go ahead.
- Rohit Dokania** Can you talk about the monthly active users of ErosNow?
- Jyoti Deshpande** No.
- Moderator** Our next question is from Chitragda Kapoor of Reliance Securities. Please go ahead.
- Chitragda Kapoor** On the ErosNow monetization part, we are still contemplating the model. You have mentioned that monetization will come little later but what about Salman Khan movies and an upcoming Ajay Devgan movie, how do you monetize those in the digital platform? Because they are the stars who are holding the content monetization, at least on the TV front with themselves and it is not with Eros?
- Jyoti Deshpande** For Bajrangi Bhaijaan, we have rights to show it on ErosNow. We may not have the rights to show it before TV on ErosNow because he had already presold the TV rights. But we do have the rights to show Bajrangi Bhaijaan on ErosNow. The strategy is that wherever you hold the power for bulk of the slate, you will try and give the advantage before TV to ErosNow and not where you will show it after TV on ErosNow. But you will have a complete set of films, so the consumer should be spoilt for choice in terms of movies, music, allowing it to make music playlist or TV shows catch-up, if you wanted to watch all episodes of Comedy Nights with Kapil. We are aggregating Pakistani series from Hum TV, which is extremely popular; the most accessed TV content is the Pakistani serial and then the original. So, we will have box sets of 13 episodes all completely without ads, which you can watch on ErosNow and also in the next quarter, we are going to be announcing the new pricing. So currently our premium subscriber has to pay around Rs.299 per month, which based on our last 2 years of soft launch, we believe is a very high threshold so we are creating two tiers of premium pricing, one at Rs. 50 per month where you will get access to all of the content completely ad free but with no additional features and at Rs. 100 per month we are giving additional features like subtitles, HD quality. We are allowing you to create a family account, so if there are four members you can all create different accounts and have your own preferences and also very importantly off-line caching so you don't have to be online, it will be DRM supported. So over the next quarters, you will see content lineup as well as pricing changes so that we make it more attractive for more subscribers or users to convert to subscribers.
- Chitragda Kapoor** Even an Ajay Devgan movie will also hold the same clause that it will not be released first on the digital medium? Shivaay, I believe, is also getting released now.
- Jyoti Deshpande** Shivaay will also have that clause where it will come first on TV and then later on it will come on ErosNow.
- Moderator** Our next question is from Saurabh Kumar of JP Morgan. Please go ahead.
- Saurabh Kumar** One is on content investments, so full year your guidance is for Rs. 1, 250 crore, is that number correct?
- Jyoti Deshpande** Yes, Rs. 1,000 crore to Rs. 1,200 crore.
- Saurabh Kumar** What was your investment in the first quarter?



- Dinesh Modi** I will give that number to you offline.
- Saurabh Kumar** Okay. The second is essentially on margin improvement that you have guided, so what is driving this improvement through the year from 20% to 25%?
- Jyoti Deshpande** It was 25% last year.
- Saurabh Kumar** If I look at from Q1 to Q1, it has actually come down?
- Jyoti Deshpande** For Q1, we explained that the margin dropped by a one-off trading kind of a sale which also went through cost of sales, so there was a disproportionate revenue increase and the margin drop offset each other. The underlying revenue, as adjusted for that sale, has increased by about 37.5% and the EBIT increased by 2% adjusted for that sale.
- Saurabh Kumar** What was this trading loss?
- Jyoti Deshpande** It was not a trading loss, it was a one-off sale of an inventory of digital rights to the parent company.
- Saurabh Kumar** On ErosNow, I am trying to compare the market cap of your US entity versus the Indian entity. So is it fair to say that the differentials should largely be accounted by the value captured in ErosNow, plus the value on whatever margins you capture on your overseas sales, that is ideally what explains the difference or was there anything else?
- Jyoti Deshpande** So in the international group, the international revenues are captured there. The international revenues are already captured in India to the extent that they sell to the international group and ErosNow is additional but it is not generating huge revenues right now but the market cap takes into account the potential of ErosNow, some of it.
- Moderator** Our next question is from Prince Poddar of UBS. Please go ahead.
- Prince Poddar** Firstly the non-satellite deals with Salman Khan Productions, I am assuming it's for all the movies, so Hero would also fall into the same category?
- Jyoti Deshpande** Yes.
- Prince Poddar** Secondly, the breakup of revenues which is given in the presentation, is it for the adjusted revenue or is it for the full Rs. 481 crore of revenue?
- Dinesh Modi** It is for the adjusted revenue.
- Prince Poddar** What is the minority interest component of Rs. 10 crore, which is very high this quarter?
- Jyoti Deshpande** It's mainly color yellow, Tanu Weds Manu Returns.
- Prince Poddar** We do not expect it to be so high in the coming quarters?
- Jyoti Deshpande** If we deliver hits after hits, once a year, you will have that number.
- Moderator** Our next question is from Urmil Shah of IDBI Capital. Please go ahead.



- Urmil Shah** My first question was on Trinity Pictures. You will give the details in the subsequent quarters, but has there been more movies which have been green lit and might be finalized going forward or the number remains the same as in the previous quarter?
- Jyoti Deshpande** There are at least 12 projects under development. We have set up a Writer's Room, we recruited Writers from around the whole country, so lots of progress has been made on Trinity Pictures. We are hoping that the next time we speak to you; we will announce at least the first three films that we are going to start off with, which all will be franchise films.
- Urmil Shah** Going forward on the ErosNow front, the content sourcing traction. It would be great if we could segment it in a different manner rather than the three segments, which are being given right now.
- Jyoti Deshpande** So that you are able to see what is on the transfer pricing basis and what is distribution revenues?
- Urmil Shah** That's right.
- Jyoti Deshpande** So you are going to be able to see it because we are putting the distribution through an LLP structure and the transfer pricing will happen through EIML. When we announce the structure to you, we will try and separate the two so that you are able to track it, going forward.
- Urmil Shah** For Q1, the catalogue sales were around 10-12% of revenue?
- Jyoti Deshpande** That's right.
- Urmil Shah** The adjusted revenue?
- Jyoti Deshpande** That's right.
- Urmil Shah** The content advance from the parent company would be used for acquiring content for the core business, but would it be safe to assume that part of it was used for this third-party content and that's how it will be going forward as well?
- Jyoti Deshpande** It is used for any content. Even the third-party content is acquired by Eros India only, so it's not directly used to pay any third party. Eros India only acquires all content, the ones that it produces and the ones that it pays someone else, so it's a basket of money that is used to adjust against new release or catalogue.
- Urmil Shah** There could be periods wherein there would be big movies or more number of movies in which you would need investments and at times there could also be content which would be required for ErosNow as well, so the content advance might not reflect only the advances for movies to Indian entity?
- Jyoti Deshpande** Yes, it's a basket of money, no matter what content you supply, whether new releases or ErosNow or any content, you can adjust that balance.
- Moderator** Our next question is from Mitul Patel of Laburnum Capital. Please go ahead.
- Mitul Patel** Have you done any internal analysis as to how many paid subscribers are needed in ErosNow to have a meaningful impact on the operating level? What has been the experience of Netflix in the US?



Jyoti Deshpande

If you look at the Netflix model, they probably started off as a DVD aggregator moving on to a techno platform and now they have re-transformed themselves as a content owner and its now a \$ 75 billion or \$ 95 billion market cap company with 65 million subscribers. Netflix even today is at USD 1.2 billion negative cash flow and that's the kind of value that it's created. Our content investment is much lower compared to the hundreds of millions of dollars that they spend on making content and trying to acquire and hang onto the subscribers, but our blended ARPU will also be lower. In terms of size of the market, our market is much larger, so if in India you get 100 million subscribers paying you a \$ 1 ARPU that's a significant ARPU in the years to come. In terms of 4G and the broadband, when that will happen is anybody's guess but we think there is long-term value at relatively lower ARPUs and the breakeven subs, if it's a \$ 1 ARPU then maybe its 5 million, if its \$2 ARPU it can be smaller. Since we are in investment mode and haven't really zeroed in on the exact investment that we will be making over the next 3 to 5 years, it will be need based, so it's a little difficult to calculate that.

Mitul Patel

Tanu Weds Manu Returns is now being offered on ErosNow before TV. Without doing that, what would be the revenue from TV and if it had released on TV today?

Jyoti Deshpande

We got the full price. We actually did the TV sales even before we showed it on ErosNow and we carved out. We were transparent with the TV networks that we are carving out the window between theatrical and TV for ErosNow and so we contracted to that effect and we were able to get the price that we were seeking, so still early days. It has not yet begun to cannibalize but maybe if this is terribly successful in the future, if we have a trend that we can share with you we will come back and share with you.

Moderator

Our next question is from Rohit Dokania of IDFC. Please go ahead.

Rohit Dokania

On ErosNow and its digital rights, I believe you have sold your non-exclusive rights, does that mean say if tomorrow Netflix comes to India and we gave them content, so that value will be realized in Eros International, which is the India listed entity?

Jyoti Deshpande

No, it is mainly to carve out all the rights that you have already created. We don't expect Eros India to not work in the interest of ErosNow, just as the parent company is always working in the interest of Eros India.

Rohit Dokania

Let's say tomorrow if we actually give the rights to someone else as well because those are non-exclusive rights, so will that revenue upside go to PLC or will that come to the Indian listed entity?

Jyoti Deshpande

It will not create competing rights to others. The reason why it is non-exclusive because it is already created, so those licenses cannot be taken back and those revenues were already in Eros India but Eros India will not create competing licenses, they will consult with ErosNow whether any licenses can be created. If those can be created they will sit in Eros India but we don't expect them to license content to Netflix.

Moderator

Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

Jyoti Deshpande

Thank you all once again for such interesting questions and taking continued interest in our Company. We assure to answer all your questions and help you understand the Company better. Thank you again and speak to you next quarter.



Moderator

Thank you. Ladies and gentlemen on behalf of Eros International Media Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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