# Zee Entertainment Enterprises Limited

**Q1FY19 Earnings Conference Call – Edited Transcript**

July 17, 2018

**Moderator:** Good Day ladies and Gentlemen, and a very warm welcome to the Q1FY19 earnings conference call of Zee Entertainment Enterprises Limited. As a reminder, all participant 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bijal Shah. Thank you and over to you, Sir!

**Bijal Shah:** Thank you, Ali. Hello, everyone and welcome to Zee Entertainment's earnings call to discuss Company's performance in Q1FY19.

Joining us today on this call is Mr. Punit Goenka – Managing Director and CEO of Zee Entertainment, along with the senior management of the company.

We will start the call with a brief statement from Mr. Goenka on the first quarter performance and subsequently we will open the floor for question and answers.

Before I pass it on to Mr. Goenka, I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in the context of the risks that we face.

Thank you and over to you, Mr. Goenka.

**Punit Goenka:** I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of the first quarter of fiscal 2019.

We are happy with the all-round performance of our portfolio in the first quarter. Our domestic advertising grew by 22%, driven by increase in our network viewership share and higher ad spends across categories. Based on our discussions with the advertisers and the visibility on ad campaigns that we have, we believe that the ad growth for the industry could be higher than the initial estimates for this financial year.

On the subscription front, our domestic subscription revenue grew by 12% during the quarter. In the beginning of the month, TRAI notified that the new tariff order will come into effect starting January 2019. We have started discussions with our distribution partners for seamless transition to the new regime. If implemented as envisaged, the regulation would be beneficial for all stakeholders and could be a catalyst for ARPU growth. Even under the new regime we will be able to grow our subscription revenue at a healthy pace.

Our digital initiatives have started yielding results. ZEE5, our digital OTT offering, is gaining significant traction and witnessing growth across viewership metrics of MAUs, video views and engagement levels. It is already amongst the top-5 digital entertainment platforms in India. We are confident that the pace of subscriber addition will further accelerate with the roll-out of original content and exclusive movie premieres. We have released 14 *ZEE5 Originals* on the platform across 6 languages so far, and will more than double this count by the end of second quarter. We are on track to be the largest producer of original content for digital in the country. We are also integrating the technology of Margo Networks and Tagos Design in our product which will not only help us in increasing engagement with the audience but also indirectly in content creation. We are committed to make ZEE5 the #1 entertainment destination for digital consumers.

Our domestic broadcast portfolio further increased its market share and continues to be the leading television entertainment network in the country. The viewership share increased to 19.2% during the quarter driven by the strong performance across markets. While we were the leader in the pay and FTA Hindi GEC segment, our performance in regional language markets continues to ramp-up, particularly in Tamil and Bengali. We also relaunched our English movie channel, Zee Studio, under the new brand identity - “&flix”, which will help it position as the premium destination for English movies. We believe that there is still room for monetizing the increase in market share, which will allow us to grow ahead of the market.

Our movie studio, Zee Studios, released three movies during the quarter – *Parmanu* and *Beyond the Clouds* in Hindi and *Nude* in Marathi. While *Parmanu* was well received at the box office, *Nude* won critical praise and was selected for screening at several international film festivals.

The cash & treasury investments for the quarter ended June 30th stood at Rs. 30 bn.

I would also like to use this opportunity to address the feedback we have received from some of our investors regarding the surplus cash funds outside India. A part of our cash and cash equivalents are in overseas locations and there are two reasons for the same – one, when we had sports business, we required funds outside India to pay different sports bodies for the rights and to run day to day entertainment business in overseas territories. Two, receipt of proceeds on sale of sports business. Repatriation of cash from overseas subsidiaries attracts tax at rate of ~17% which can be offset against dividend tax payable on dividends declared by the company. Accordingly, we are bringing back surplus cash in a calibrated fashion to optimize our tax outgo and we have already repatriated a large part of proceeds from sale of sports business to India in FY17 and FY18. There is requirement of funds in the overseas market for our existing operations and the planned global launch of ZEE5. Barring these requirements, surplus cash, including investments in overseas funds, will be brought to India in due course of time.

In the past, we had invested a small part of our treasury in high yield securities to optimize the yield. We have decided to shift these investments into low risk liquid funds. You will see changes on these lines in our treasury mix from the coming quarter itself.

I would now like to open the floor for questions and answers.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** My first question is on ZEE5. Recently you have cut your annual subscription by half, so what's the reason for that? And in terms of advertising outside your own network for ZEE5 original shows, are you spending lot of money? Why I'm asking this is when I see Netflix's Sacred Games, I see the advertising across different platforms and there is lot of buzz among viewers etc., but I don't see the buzz for your own tent-pole which currently you're rolling out. So, if you could take us through what's the ad budget for the tent-pole program specially and for the 14 shows which happened in Q1, was there significant advertising back up for the shows on the OTT?

**Punit Goenka:** As far as your first question Abneesh that why we have halved the subscription amount, it's a one-time offer up to 15 August. For people who subscribe during this one month, they can get this special offer of Rs. 499. It's just a marketing promotion and the offer is withdrawn effective midnight of 15th August. In terms of marketing, we were waiting for *Karenjit Kaur* to be ready and now you will see a significant push on marketing over the next 75 days for not just *Karenjit Kaur* but for the platform and other 14 series that we have rolled out. Obviously for the regional market you will not see it in Mumbai, it will be largely in the local markets down south or in West Bengal etc.

**Abneesh Roy:** You have said ZEE5 is yielding initial results and showing strong viewership. So, is it across all the six languages? And, in terms of the international launch is it going to happen by Q3? Have you signed the agreements with the telecom players?

**Punit Goenka:** Let's go in reverse order, we have not yet signed any telecom deal for ZEE5 in India or overseas. ZEE5 global launch will happen in a phased manner. By the end of the FY19, it will be available globally across the world. And can you just repeat the first one again?

**Abneesh Roy:** Is it successful in all the six languages?

**Punit Goenka:** With different degree of success in different languages. I don't have the details by language right now but it's a good sign for us to see that it's working in most of the languages that we have gone into.

**Abneesh Roy:** Telecom player deal hasn't happened because you want to do the tent-pole and get metrics even better? Is that the reason?

**Punit Goenka:** That's a process of negotiations and till we get the right value of our content we will not do the telecom deals.

**Abneesh Roy:** My second and last question is on the rebranding of Zee Studio to &flix. One, you now have two channels in that space of English movies - &privé and &flix. Does this rebranding solve lot of the issues because I am sure you have done lot of hard work in Zee Studio over the past few years? But competition clearly is quite steep there and now with Netflix, Amazon Prime kind of players also being there, does the rebranding address the inherent structural issue which is there?

**Punit Goenka:** I think it's nothing to do with the structural issues in branding. What happened was that we have a full library that we had acquired this year which would have refreshed the entire brand itself. We just felt that the ‘&’ brand would connect well with the English-speaking audiences as we had seen in the success of &privé and therefore the rebranding. Obviously, you will see the rollout of the titles on the English language and I'm sure we will grow that market further for ourselves.

**Abneesh Roy:** Logically should Zee Café also end up as & Café longer-term?

**Punit Goenka:** We are still debating it internally, but most likely it will. Also let me give you one more metric Abneesh, even today as we speak more than 50 million viewers are active on English language entertainment on TV.

**Abneesh Roy:** For the universe or for you?

**Punit Goenka:** Universe.

**Abneesh Roy:** What's the differentiation &privé and &flix essentially premium and mass, is that the…?

**Punit Goenka:** Mass premium and super premium, you are answering the question yourself.

**Moderator:** The next question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

**Sachin Salgaonkar:** Punit, you did mention about the ad growth being slightly better, so just wanted to understand from an industry perspective, from a low-teens growth as expected earlier, should we look at mid-teens growth? Any comments on that and who are actually spending per se?

**Punit Goenka:** I can't give you a number because the prediction comes from the forecasting agencies. While they had guided for a 10%-12% kind of ad growth in the beginning, they have not yet re-guided on that number. But if you look at some of the FMCG companies that have put out results, and if you look at the advertising growth that they have seen and expanded the margins even after upping the investments so much, I think it's safe to say that it will be higher than the 10-12% number.

**Sachin Salgaonkar:** Are you seeing a mix in terms of digital increasing or it remains the same?

**Punit Goenka:** Digital advertising?

**Sachin Salgaonkar:** Yes.

**Punit Goenka:** Absolutely, it is still increasing.

**Sachin Salgaonkar:** And it's not coming at the expense of TV right now, right?

**Punit Goenka:** Not at all.

**Sachin Salgaonkar:** Second question is on ZEE5. I saw there is a comment that it's amongst the top-5 digital entertaining platforms. Is this in terms of monthly active users, is it the third-party data, can you help us understand you are a top 5 from what perspective?

**Punit Goenka:** Yeah, it's third-party data but if you look at even our scores on App Annie, we have gone from the 90$^{th}$ rank when we were launched to 30$^{th}$ rank. So, that's how we look at it.

**Sachin Salgaonkar:** You are the top-5 digital entertaining app in the sense that would you remember which are the first 4 or which is the exact number of ZEE5 that way?

**Bijal Shah:** Sachin, we would not like to name the other apps but actually if you look at Google Play Store itself and if you see the top trending apps in the entertainment category, you will find the list and you will see ZEE5 would be featuring there.

**Sachin Salgaonkar:** Because Bijal, in Google trends it's showing ZEE5 as number 36 amongst all apps.

**Bijal Shah:** You have to look at entertainment apps. I mean we are the top-5 entertainment app, not the top-5 app in all categories. So, if you go to entertainment section you will find it.

**Sachin Salgaonkar:** Third question is generally on this entire timeline of new tariff order implementation from Jan 2019. Do we see any risks to the timeline and how should we look at the overall subscription growth for this fiscal year? Should it be at the same level or you see upside or downside risk to that?

**Punit Goenka:** Firstly, implementation risk from a timeline perspective is only if there is some more intervention by the courts. Apart from that, TRAI is very clear that they want to implement it by Jan. So, unless the courts intervene it should be implemented. Whether courts will intervene or not that's something I can't comment on. In terms of risk to our revenue growth, I don't see much risk to that. We should manage to get the growth that we have guided for.

**Sachin Salgaonkar:** So low-teens is the directional number we should look at from subscription perspective?

**Punit Goenka:** Yeah, it should only be better.

**Moderator:** The next question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

**Vivekanand Subbaraman:** Can you help us understand two things. One, you mentioned that the monetization of your market share increases is still pending. So, what does that translate into FY19 growth or are you trying to highlight that there is further scope to outperform the industry revenue growth on the same ratings level if you sustain this through the year and how much would that outperformance be? Second, what are the key new genres or linguistic markets along with some timelines where you intend to grow and sustain your network viewership gains over the next year or so. That is on the advertising side. The second question is on the subscription side. You mentioned that you expect to get similar low-teens percentage growth even after the TRAI's regulations are enforced, so what is more important here? Will it be the retail pricing from your end or will it be the bundles that you roll-out or will it be the distributors that push bundles to consumers? And on a related note, what is the new percentage of customer payout of subscription that you, as broadcast industry, expect to garner after the implementation of the tariff order? Because currently it's 25%, as you have given in your presentation?

**Punit Goenka:** On the advertising side, I would not like to quantify what will be the growth rate we are looking at. But, definitely we will be ahead of the industry for the whole FY19. The growth number is different for different markets, so difficult to give you one number. But you can safely say that whatever the industry growth will be, we will be ahead of that.

On the regional channels, we will be launching a Malyalam channel this year for certain. We are still awaiting regulatory approval for that. We are actively evaluating other regional markets as well. In terms of the existing products, we will strengthen all our regional channels including Tamil, Kannada, Telegu, Bengali, Marathi, Bhojpuri, Oriya, so all of these places we will work. The endeavor is to continue to strengthen our share and also enter some of the new markets.

On subscription side, it's still early days. We have just started the conversation with our distribution partners or DPOs, and I think the share of broadcasters' pay-out will range between 25% to 30% going forward as well. But I think the industry has to work together to see how we drive the ARPU upwards rather than looking at what kind of gains a broadcaster or a DPO can make in the short term. I hope that covers your questions Vivek?

**Vivekanand Subbaraman:** Just one small follow up on the channel launch plans that you have. How high priority is this for you in the context of your aggressive digital investments? Because if I understand correctly, that is consuming a lot of your margins because had you not invested….

**Punit Goenka:** Our margin guidance of 30%+ factors in all the regional expansion as well.

**Moderator:** The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

**Kunal Vora:** My first question is on ZEE5. Can you provide some numbers, like how many customers you have, what's their usage pattern? Are they mostly watching the original content and what's the renewal rate which you are seeing from the initial customers? The second question again on ZEE5, how do you see the customer additions ramp-up? Do you expect it to accelerate once you have a sizable content library or it will be more of a linear growth? Also, how are you looking at the target for breakeven for ZEE5?

**Punit Goenka:** So Kunal, I am not in the position to share numbers. I had guided in the beginning of the year that at the end of Q2 I will share specific numbers. We are still in the early phase as the marketing efforts that I talked about earlier will kick in now and therefore we can talk more concrete numbers by the end of September and when we do the second quarter call.

In terms of ramp-up, it happens in a gradual way. As we keep launching more content, more consumers will come on the platform. It is not that if we are launching *Karenjit Kaur* today, I get a spike in my subscriptions and then it dips again tomorrow. The trend I'm seeing is very linear in terms of the ramp-up because consumers come in and discover content and then they play around with the app and figure out more. So, the heartening thing is that the time spent per session is increasing month on month. So, while our absolute numbers are going up the time spent per session per user is also going up month on month. As far as break even timelines are concerned Kunal, we are still in investment mode, not just as ZEE5 but as an industry. As I had said, generally when we invest, we look at a 3-5 years horizon for breakeven. In this case, I would like to be a little conservative to say that it will be towards the 5 years. It will definitely not breakeven in the first three years.

**Kunal Vora:** What I wanted to understand was that will it work this way that you have 60-70 shows coming up in year 1 and by year 3 you have maybe like 200 shows and that's when you have a sort of a mini Netflix in place. And that's when the subscriptions will be really ramping up? Would it work this way or how are you looking at the customer number like maybe in three years time? Do we see ourselves at 3 to 5 million customers, any numbers which you have in mind?

**Punit Goenka:** I will be very disappointed if I am at 3 to 5 million subscribers.

**Kunal Vora:** So, you are looking at much higher numbers in 3 years time?

**Punit Goenka:** Absolutely.

**Kunal Vora:** How are you looking at the television space forward? It looks like there is consolidation happening in DTH and even in MSO space there is some consolidation happening. Then you have Jio which is coming in with FTTH and they are targeting 50 to 100 million households. So, do you see there could be some structural changes as the industry on the other side consolidates?

**Punit Goenka:** That is bound to happen. But my view has always been, even when DTH came 10-11 years ago, that all technologies will coexist in a country of our size. So, cable will also coexist, DTH will coexist and even ZEE5 will work. So, it's all going to be different services at different price points. For a content company like us, it doesn't really matter because at the end all three are pipes. So, as long as my content is relevant, I will still get my value from consumer payout.

**Kunal Vora:** Earlier you were dealing with multiple parties like DTH, where you had 6 players. MSOs again were very fragmented. Now, if you have like 4-5 players which are much-much larger compared to the players which you have been used to dealing with, would that tilt the balance of power?

**Bijal Shah:** Globally if you see, India is a very particular case where we have so many players in the distribution space. Globally, broadcasters would be dealing with 2 or 3 distributors and still they get 30% to 40% of the final subscription revenue. Whereas in India, we are dealing with so many people and still we are not getting that kind of share. So, we don't think that consolidation is so much of an issue. In fact we see consolidation as a positive thing because the significant discount at which India is selling its cable and DTH services is a result of the fact that we have so much of competition and so many players in the game. So, if there is a consolidation we think the focus on ARPU will go up and in fact we can see an accelerated growth in ARPU. So, consolidation is, I think, from industry perspective a positive development in the long-term.

**Moderator:** The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

**Naval Seth:** My question is related to the earlier participant. So, what I understand Punit from your comments is that ARPU growth will be the key for driving subscription revenues for domestic subscription in the new tariff order. What gives you the confidence that ARPU increase can happen where choice for consumer is increasing by the day and the way Jio has done disruption in telecom market they can't do it over here? So, what gives you the confidence that ARPU increase can happen at a consistent rate?

**Punit Goenka:** My confidence comes from the fact that today we are dealing with multiple operators at multiple levels and there is discriminatory pricing for the consumer that happens. Today, in our country, cable TV services are available for as low as Rs. 100 and they are also available for as high as Rs. 600. Tariff order brings uniformity to the entire tariff in the country and that's why we believe higher ARPUs can work. ARPUs will have to work because the entire value chain of the industry does not work otherwise. Today, if you look at the cable, you have the LCO making disproportionate money, you have the broadcaster making some amount of money and the DPO is the one that is suffering in the middle. You can't compare disruption in a telecom product, which is a one service business, versus content which is so diverse that no one player can control 100% of the content that the consumer wants. And therefore, we have to work together to increase ARPU rather than just me alone trying to increase the ARPUs.

**Naval Seth:** Jio is talking about that number of 50 million, nobody knows by when it will reach that. So, if he becomes that big, if he is able to achieve that number, can it shift the balance of power? Because then multiple parties, with reach of 7-8 million households will go away, while this guy at 50 million or 40 million comes and negotiates with you. So, probably your subscription revenue growth can be impacted or hit if I don't take into account ARPU increase in the new tariff order regime. Still you will be able to achieve that low-teens growth?

**Punit Goenka:** As long as the content we produce is relevant to the consumer and the consumer wants my content I am relevant. The pipe has to offer that content to the consumer otherwise what is the proposition of the pipe.

**Bijal Shah:** As far as the new tariff order is concerned, everyone has to pay the same price to the broadcaster and broadcasters are under obligation to give same terms to all the players. So, I mean there is really no reason why we should be worried about it. In fact, it will become another pipe and we will partner with them to reach our customers.

**Naval Seth:** The 15% clause in the tariff order which was deemed arbitrary, is it still pending in the court and is yet to be notified by TRAI and hence the tariff order will get implemented once that happens? Or irrespective of that it will get implemented?

**Punit Goenka:** No, 15% discounting gap has been done away with, so it will not be there when the implementation happens.

**Naval Seth:** And TRAI is not going to re-notify on something of that sort over there?

**Punit Goenka:** Not to our understanding.

**Moderator:** The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

**Vikash Mantri:** Punit, does the ZEE5 international strategy cannibalize our international subscription revenue? And the second question is, will giving content to Jio be categorized similar to that of giving content to *dittoTV* equivalent or a *ZEE5* equivalent or a *Tata Sky Everywhere* equivalent, and therefore not come under the gambit of the current tariff order, just some view on that?

**Punit Goenka:** I think if ZEE5 does cannibalize our existing subscription revenue in international markets I will be very happy with that. Because that's a direct ownership of the customer that the company gets rather having it through a distributor. So that's a good problem if it happens that way and that is one of the parts of our strategy of going global with ZEE5.

On the Jio fibre, how would you circumvent the tariff order in Jio's case? It will get classified as a DPO when they go with the Jio fiber to home with content.

**Vikash Mantri:** So currently what money you are getting from Jio TV or it is not the same as what you're getting from a Dish or Tata Sky that way?

**Punit Goenka:** Yeah, but Jio TV is restricted to consumers' handsets. We are not allowing them any rights to take our content from the handsets and cast it to TV. The content is restricted that way and married to the sim card. Therefore, we treat them as a very different consumer than a household consumer.

**Moderator:** The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

**Rajiv Sharma:** Punit, with this whole digital content increasing across the platforms, do you see it putting pressure on your traditional TV model as well as on the content cost, and is it factored in your margin forecast of 30%+? Second, Jio has been very aggressive when it came to mobile and similarly it is likely to be aggressive in the FTTH space as well. Though the rollout may be gradual but the pressure on cable industry can be significant, so how worried are you about the fortunes of cable industry in the medium-term in the next 2-3 years and could this put pressure on your subscription revenue growth?

**Punit Goenka:** I think I have no doubt that Jio will be aggressive on the FTTH side. Cable industry will come under pressure if Jio is going to take away 50 million or 100 million homes and therefore they have to get their act together to offer services to the consumer as per their needs. If they don't, they will be under pressure. Does it change anything fro our perspective, nothing. What it does is that it moves the customers from one platform to another. Just like when DTH came and took 40 million homes from cable, now fiber will come and do that. So, it doesn't move the needle from our perspective.

**Rajiv Sharma:** The way it could play out is that even though Jio will not be able to address all the supply-side concerns, it will have maybe 2-3 million number with the greenfield, but the pressure on ARPUs could be on 70-80 million cable households or 20 million DTH households. So, the pressure on ARPU could be significant on 100 million though the rollout will be just restricted to 3-4 million. I'm trying to understand your thoughts on that context when that scenario happens.

**Punit Goenka:** I think first we have to look at the fact that Reliance will have input cost of getting to the homes, right. There will be content cost that they will have to pay to companies like us for getting the content to rollout. How long will they want to subsidize the business model is something we will have to wait and watch and see what they are doing. From my perspective it doesn't change much because if I am getting a particular yield on cable I should get that same yield on whether it is FTTH or it is regular coaxial cable.

**Rajiv Sharma:** And on the first question, your thoughts on pressure on content cost of TV business, of the higher production values on the OTT content?

**Punit Goenka:** I agree with you that some of the content being made for digital platforms is very high quality. When I say high-quality, I mean because it is all shot outdoor and it takes bigger stars and those kind of things, that's why you think that it's better quality. In terms of quality, I think it's comparable to what television quality is because we use the same equipment. It will not put pressure on the television part because the sheer volume of television content that is being produced and the economies of scale that is being achieved there versus what we are producing for digital, the delta is far apart. I don't see it putting pressure on television, at least in the foreseeable future.

**Rajiv Sharma:** There is this understanding across the board that with the tariff order things will move from B2B to B2C as far as broadcasters are concerned. So, it could be that cable operators and DTH will have to go and put more consumer choice in place. So, how do you see this playing out and what it means for you in terms of subscription, reach, your channel portfolio, the tail channels? Your thoughts on this whole thing?

**Punit Goenka:** Rajiv, I am very clear there is no consumer that is going to do à la carte selection of channels. Even if they do, that number is going to be so tiny it doesn't really matter. Eventually, bouquets will only sell. Whether it is broadcasters' bouquet or DPO's bouquet depends on the construct and I'm sure all DPOs are smart enough that they would want their packages to sell rather than directly broadcasters packages and hence, that is the way I think it will play out.

**Rajiv Sharma:** But the content will no more be a cost for DPOs. So, there will be a direct consumer relationship which gets established between broadcaster and consumer.

**Punit Goenka:** As I said, as per my understanding that number will be minuscule. Therefore, it's not really going to be in existence. Theoretically, you are saying there can be close to 160 million bouquets out there because each individual can choose his own bouquet. There is no SMS system in the world that can handle that kind of traffic on a monthly basis.

**Moderator:** The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

**Jai Doshi:** Congratulations on very good results for the India broadcasting business and some excellent market share gains that you are seeing in Tamil market. Just a quick question on the international business. This quarter we are barely seeing any growth on the advertising front even though the base was fairly low and even the subscription piece has sort of declined. So, how should we think about that business from the next 2 to 3 years' perspective?

**Punit Goenka:** The advertising revenue decline is purely on the back of the geopolitical issues we are seeing in the Middle East market. It has further worsened in this first quarter itself and there is no visibility on the recovery of that happening currently.

On the subscription side, the impact is largely because of UK where until last year we were still a pay channel on the Sky platform and now in the first quarter we are no longer a pay channel. This impact will remain, so you will see that continuously going forward as well.

**Jai Doshi:** So current quarter number is the new normal or there can be further decline?

**Punit Goenka:** No, it's the new normal for subscription.

**Jai Doshi:** We have seen significant investments in movies over the past two years and its sitting in the inventory on the balance sheet, so I assume most of these movie rights you would have already procured. So, is it the correct understanding of whatever is visible in inventory or some bit of it is also advances or the movies that are yet to be a telecasted?

**Bijal Shah:** What is sitting in inventory is the movies which are already with us including what we have paid for the future rights which will get activated at a later date. What we have paid for movies under production is sitting under advances. So that is how things are but you might not have seen all the movies whose rights are with us. So, the very simple example of that is that we already have a good movie library of Malayalam but we don't have a channel. So that has not been aired on the network yet. In many other markets where we have aspirations to launch movie channel, we might not have exploited all the movies. So, while a good part of the movie which is sitting in the inventory has been exploited, there is also a reasonable part which is yet not exploited.

**Jai Doshi:** You have indicated that you have aspiration to be a number one digital destination for entertainment content in India. In what timeframe do you think you will be able to get there based on your investment plans and the way you see competitive landscape today?

**Punit Goenka:** I am pretty certain Jai that within 18 to 24 months we should safely be at that position of being a number one entertainment destination for the viewers.

**Jai Doshi:** Your global competitors are spending the amount equivalent to one spends on a movie or a TV series and that has raised concerns in general about inflation for digital content. Now we have produced *Karenjit,* which I think is an extraordinarily sort of well-made show, I had a chance to sample a few episodes. So, based on the shows that you have produced so far and the ones that are lined up for the current quarter, how has content inflation moved versus your beginning of the year expectations. Are you seeing any unusual inflation in digital content or are you finding it difficult to get good quality writers, directors for digital content?

**Punit Goenka:** No, Jai. In fact, now having seen some of the traction of the original content across the six languages, we are only going to further increase our investments in digital content going forward. Because we are not using much talent from the television side, in terms of either writers, directors, actors, we still have a long tail available to choose from for the digital content. So, we will continue to invest in digital content and we will be doubling down our efforts going forward in fact.

**Jai Doshi:** My question was related to content cost and more so from a per series or per episode basis. Is there any unusual inflation or anything that you are seeing or it is pretty much on track or in line with your beginning of your calendar year?

**Punit Goenka:** In digital, we don't look at it that way because the quantum of content is so low. We evaluate it on story to story basis. In broadcasting, we create 500 hours of content a week. In digital, for the full-year we will do 800 hours, so it's not even comparable. So, from that perspective, we get concepts, we get stories and we budget those accordingly. There is no per hour concept there, it is all story and concept-based content cost.

**Jai Doshi:** We have not seen any tie up with telcos yet and also if you could give some update on what’s the progress on what Margo is doing to help content distribution for ZEE5?

**Punit Goenka:** As I said, the numbers are still at an early stage. The integration is happening with Margo and at the end of Q2 I will be sharing numbers with you. On the telco side, as I said earlier, you may have got cut-off Jai, until I don't get the right value for my content I will not do deal with them.

**Moderator:** The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

**Alankar Garude:** Firstly, Punit our market share trends have been very strong especially in Hindi GEC, Tamil and Bangla. So, can you throw some light on the competitive landscape particularly in Tamil Nadu and West Bengal? In West Bengal especially, have we been doing something differently of late in terms of content?

**Punit Goenka:** Obviously we have done something differently in the content and that's how the shift happen. It's not otherwise that can happen. Both in Tamil and in West Bengal, our fiction strategies have started working and those have given us the traction. Is that what you are asking or did I miss the whole question?

**Alankar Garude:** Apart from the investments which we ourselves are doing on the content, is there anything specific, either in terms of distribution or reach or anything to do with the competitors lowering their intensity, have we seen any of these things in either of these two markets?

**Punit Goenka:** No, I don't think the competition has reduced number of hours or any distribution issues that we have seen on the ground. In Tamil also, we have seen a significant growth coming in for ourselves but not that the competitive activities lessened in any manner. In fact, in other markets like Bengal, Maharashtra we keep hearing of even new entrants wanting to come in to the market. So, competition will continue to remain at its peak as its always been rather.

**Bijal Shah:** In fact, in the Tamil market, competition has actually gone up and despite that we have been able to increase our share.

**Alankar Garude:** You mentioned about launching ZEE5 globally by this fiscal end. Just wanted to understand whether there are any specific markets which we want to have a higher focus on? Some markets where possibly we have got a lower TV distribution reach, would we be wanting to target such markets first or it's going to be more of a blanket strategy?

**Punit Goenka:** As I said, it is going to be a phased approach, market by market. Yes, there are certain markets which are higher yielding than the others and that's built into our strategy overall.

**Alankar Garude:** Is it possible to name few of these markets?

**Punit Goenka:** I don't think we can discuss the strategy on an open call.

**Alankar Garude:** Okay. Recently we saw a deal between Tata Sky and Netflix. So just wanted to check if at all such an opportunity comes for ZEE5, would we be interested in tying up with TV distribution platforms as well?

**Punit Goenka:** Absolutely, why not?

**Moderator:** The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

**Yogesh Kirve:** Continuing on the regional channels that we are doing well in, I wanted to understand how long does this market share gains take to play out in terms of the ad rates and the ad revenues? So, for instance now we are the number one in West Bengal market, so are our ad rates equal to or approaching the erstwhile market leaders rate?

**Punit Goenka:** Because we sell on metrics of CPRP our rates are equivalent to them. As we keep expanding and making even more gap in the West Bengal market, our rates will continue to go up. Because we are capped at inventory levels of 12 minutes, most of our gains that you see coming in are coming from pricing. So, what is the limit I don't know. If we continue to grow share next year, I will continue to grow further also.

**Yogesh Kirve:** The transmission of this market share gains to the ad rates, that happens instantaneously because of CPRP you are saying?

**Punit Goenka:** No, there is a quarter’s lag because the deals are done that way.

**Yogesh Kirve:** These OTTs like Jio TV and Airtel TV have been there for some time, so have we revisited the content charges over what the deals would have been signed initially? So, has there been any revision since then?

**Punit Goenka:** Absolutely, as I said earlier we are still negotiating. We have not closed any deals, so everything is open right now.

**Yogesh Kirve:** Right now, the original deals are still continuing, right?

**Punit Goenka:** Yes, until the negotiations fail I would not like to pull the content out, so that's the reason it will continue.

**Yogesh Kirve:** Do you see this mobile OTT adding up to apps like Jio TV or Airtel TV adding up to a significant revenue for us?

**Punit Goenka:** No, it's minuscule right now and I don't see it growing significantly higher also. It's going to remain in this zone or at this level.

**Yogesh Kirve:** Your film and your music business, could you comment on how those businesses are performing in terms of profitability and the margins, if at all any qualitative comment on this?

**Punit Goenka:** Q1 was not a great quarter for the film production business because we had one flop, which is *Beyond the Clouds.* Any money we made on the other two or the music business was wiped-off, so there is no profit in the division for this quarter. But we don't look at it on a film-to-film basis, we look at it at a portfolio level for the year and we are pretty confident that this business will be profitable, though low margin, but will be a profitable business for us.

**Yogesh Kirve:** And the music business is currently profitable on a steady state basis?

**Punit Goenka:** Yes, it's part of the film division. We club the music business as part of film business.

**Moderator:** The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

**Sanjay Chawla:** You've made pretty handsome gains in the regional markets. So just broadly if you look at your portfolio including Hindi GECs, where do you see the best monetization opportunities where you can relatively easily charge higher ad rates, sort of low hanging fruits?

**Punit Goenka:** I think we are seeing that happening everywhere, with different levels. All the regional markets, wherever we have seen traction in our share, we've managed to grow revenue and monetization, so I can't point out one market which is higher than the other. If you look at all the markets are tracking pretty high for us.

**Sanjay Chawla:** It's kind of relatively under monetized vis-à-vis the ratings we're covering now in that sense?

**Punit Goenka:** South India as a market is under monetized at an industry level in that matter.

**Sanjay Chawla:** You will rate Telegu and Tamil higher on that list I guess?

**Punit Goenka:** In relation to Malayalam and Kannada you mean?

**Sanjay Chawla:** In relation to your own Marathi and Bengali GECs.

**Punit Goenka:** Yes, because we are gaining share so we are growing our monetization there, slowly and steadily.

**Sanjay Chawla:** Second question is on the digital where you mentioned that you would be having 150 exclusive movies across languages over the next 12 months. What kind of exclusivity are we talking about here? Are you also looking at digital-only release model like a no theatrical release model something which Netflix is doing at a significant scale nowl?

**Punit Goenka:** As of now we don't look at a non-theatrical release model in a large way. These are 150 films which have been released in theater and we have procured the rights for digital as well as satellite. We will be airing these films prior to satellite on digital platform. For example, Padman went on ZEE5 two weeks prior to going on TV.

**Sanjay Chawla:** So, this exclusivity could be both in terms of digital only and also digital plus satellite TV?

**Punit Goenka:** Yeah and exclusivity means digital and satellite rights with the Zee Network.

**Sanjay Chawla:** The last one is on the tariff order. You are obviously bullish on the medium-to long-term outlook. But just from an implementation point of view, could there be a near-term impact or any reset in our subscription revenues because obviously the market will shift from fix-fee kind of a model to a CPS model and there could be audit related issues and adjustment issues. So, do you foresee any such scenario for the first 2 or 3 quarters post-implementation?

**Punit Goenka:** No, there will be implementation hiccups but the growth trajectory should not get impacted.

**Sanjay Chawla:** Any reset of the subscription revenue base itself and of course after that growth can take over in a handsome way but any reset that is possible at a lower level?

**Punit Goenka:** Very early to say right now. We are still in dialogue with the DPOs.

**Sanjay Chawla:** Could you just comment on the timing of the Malayalam GEC launch?

**Punit Goenka:** Subject to regulatory approval, we are ready to launch in September.

**Moderator:** The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** Firstly, related to inventory level I wanted to check if they are currently at a level higher than normal because of ZEE5 launch going on and is the digital business structurally going to have a similar level of inventory level in the long-term?

**Punit Goenka:** Inventory levels are running at regular levels of our 12 minutes cap. Just because ZEE5 launched does not mean we increase inventory on the network and whatever is being used for ZEE5 is used from within the inventory only.

**Kapil Singh:** What I was saying is that are the inventory levels currently at a higher than normal level because of the ZEE5 launch going on and in the longer term is the digital business structurally going to have similar level of inventory or will it be having a higher level of inventory?

**Bijal Shah:** Movie inventory is higher on account of couple of reasons. One, we have been more aggressive on movie purchases for television business over last couple of years and also as we have highlighted that we have aspirations to launch movie channels in some regional markets also. So that is the reason our movie inventory has gone up. Also, one of the key propositions of ZEE5 is movies. So, we have an expansive library of around 3500 movies and as Punit highlighted that we have 150 movie premieres for digital offering also. So that is the reason why movie inventory is high at this point of time. We have actually been aggressive in buying movies and we are also procuring rights of some of the existing movies which will come up for renewal at a later date and some of the movies which are under production. So, if you think from a medium-term perspective, movie inventory in terms of number of days will definitely come down. It may not come down in next 12 months but definitely beyond that it would start coming down. And also, since we have bought some of the future rights at this point of time, we might not need to buy lot of movies, maybe say couple of years down the line, when these rights become live. So overall, on the working capital side it is slightly elevated, which is more than normal on account of our aggressive movie strategy, benefit of which we will see in the coming years.

**Kapil Singh:** The second question is relating to cost related to ZEE5, are they already at a normalized level or should we expect sharp cost inflation from current levels?

**Punit Goenka:** Far from normalized levels; we are still ramping up investments in ZEE5, especially on the content side and the marketing side.

**Kapil Singh:** So, we should expect more cost inflation in the coming quarters?

**Punit Goenka:** Yes, on account of ZEE5.

**Moderator:** We will take the last question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

**Rohit Dokania:** Can you discuss the launch timelines of your regional movie channels especially in the South India?

**Punit Goenka:** We don't have a timeline yet Rohit, because we are working on the licensing front and the library accumulation front. So, as I said earlier, right now we have a timeline for only the Malayalam channel. We are working on the Punjabi and the movie channel and we will come back to you in the due course with timelines.

**Rohit Dokania:** Any plan of bring the Sports Live just for digital and if we are allowed to do that in terms of the non-compete?

**Punit Goenka:** We are not allowed to do that. We are not allowed to bid for any international cricket and any international sports right even for digital until February of 2021.

**Rohit Dokania:** If you can talk about the sort of run rate of other income that appears to be low in this quarter also and on the tax rate and also depreciation, is this the new run rate?

**Bijal Shah:** Yeah, Rohit starting with other income, it is slightly detailed, so if you don't follow, call me up after this conference call. There are a few things, #1) on the other income, if you are comparing YoY or if you're comparing QoQ, in both the quarters we had something which was not recurring in nature. Last year we had a forex gain of significant amount, of around Rs. 500 million, and that is the reason YoY other income looks lower. In the previous quarter which is fourth quarter of FY18, we had some interest on income tax refund and that is why other income in 4QFY18 was higher. So, that is when you are compare YoY or QoQ. #2) Also, on the other income what happened during the quarter is that we have moved our investments in mutual funds to growth plans from dividend plans. Instead of getting dividend from these investments which used to accrue in other income, the increase/decrease in the NAV of these flows through the fair value adjustment now. So, a part of the other income is actually now accruing in fair value adjustment. So that is why you are not seeing full other income in that line item and that is making the comparison not like-to-like. If you have not followed any of this I can take you through the entire calculation off-line.

**Rohit Dokania:** And the other two things which is the tax rate, will it be in the range of 35% odd for the full-year?

**Bijal Shah:** Yeah, if we see our tax rate on quarterly basis is slightly tricky thing. But on an overall annual perspective, it will be around that region and as far as depreciation is concerned this is the normal run rate. So, you should start building in this kind of number going forward.

**Moderator:** Thank you very much. That was the last question. Ladies and gentlemen, on behalf of Zee Entertainment Enterprises Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.