



Extraordinary Together

Zee Entertainment Enterprises Ltd

Q2FY19 Earnings Conference Call

October 10, 2018

Edited Transcript

MANAGEMENT:

Mr. Punit Goenka – Managing Director and CEO

Mr. Rohit Gupta – Chief Financial Officer

Mr. Bijal Shah – Head, Corporate Strategy and Investor Relations



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Moderator: Good day, Ladies and Gentlemen. A very warm welcome to the Q2 FY19 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 Q2FY19. 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 second quarter performance. Subsequently, we will open the floor for questions.

Before I pass it on to Mr. Goenka, I would like to remind everybody that anything we say during the 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 second quarter of fiscal 2019.

Let me begin by introducing Rohit Gupta, who has joined us as the Chief Financial Officer. Rohit brings rich experience of over 25 years in domestic and international markets managing different aspects of business and financial management. Prior to joining us, he has worked for leading corporations like British Telecom, Bharti Airtel, Virgin Mobile, NIIT and Brightstar India. I welcome Rohit to ZEEL and wish him all the very best.

Now let me talk about the performance during the quarter.

ZEEL has been the fastest growing entertainment platform in the country. In a little over six months, it has become the second most popular OTT platform. With a monthly active user base of 41 million and an average daily time spend of 31 minutes, it is growing faster than our expectations. Since April, MAUs have grown 190% and video views have grown 340%. Despite the strong initial performance, I believe it is



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just the beginning of a long digital journey for us. In line with its target to be the one-stop entertainment destination, ZEE5 continues to expand its content catalogue. The platform has so far released 29 original content and the pace of new launches will pick-up in the second half. Given our original content pipeline, ZEE5 is set to become the biggest producer of digital content in India. We are also partnering with key players in the digital eco-system to drive higher reach and sampling for the platform. We have already announced partnerships with two of the telecom operators and are actively discussing similar partnerships with the other telecom operator, broadband service providers, device manufacturers and e-commerce companies. With a strong pipeline of content and our partnerships in the digital eco-system, we are confident that ZEE5 will become the default entertainment platform for digital audience.

Moving on to the performance of the broadcast business which continues to grow at an impressive pace as evident from the domestic advertising and subscription revenue growth numbers. We continue to consolidate our viewership share which is driving our market leading growth. The viewership share increased to 19.9% during the quarter driven by the strong performance across markets. While we were the leader in the Hindi segment, our performance in regional language markets continues to ramp-up, particularly in Bengali and Kannada. We believe that our broadcast portfolio has the potential to further increase its market share and the launch of new channel, Zee Keralam, in the next quarter will surely help it.

In domestic pay market, we are realizing benefit from digitization of phase III markets. This along with the early closure of contracts this year has driven 26% YoY growth in subscription revenues. Driven by the strong growth in first half we expect our full year domestic subscription revenue growth to be better than our earlier guidance. Outlook for advertising growth continues to remain healthy.

Moving on to other business. International advertising and subscription grew by 11.3% and 1.9% respectively. *Dhadak*, a Zee Studios production, performed well grossing more than Rs. 1bn in at worldwide box office collections. Zee Music Company continues to ramp-up its library and subscribers.

EBITDA for this quarter grew by 37.6% to Rs 6.8bn, even as we are investing in digital business. Our margins at 34.2% expanded by ~300bps driven by strong performance in the traditional business. We are confident of maintaining 30%+ margins even as investments in digital scale up.



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The cash & treasury investments for the quarter ended Sep 30th stood at Rs. 30.7 bn. During the quarter, the outstanding receivable from SGGD has been settled and money will be received this month. Further, as indicated in the 1Q earnings call, we have initiated steps to reduce inter-corporate deposits. Surplus funds in overseas territories will be repatriated to India in a tax efficient fashion and the remaining funds will be reinvested in low risk liquid funds. We will update the market on the status of these steps in the coming quarters.

With this opening comment, we would like to address any questions you have.

Moderator: Thank you very much. Ladies & 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 the very strong advertising growth. The festive season has been delayed in the second quarter, despite that you have delivered 23% ad growth. Is it because of the 70 bps gain in market share quarter-on-quarter? And have the telecom deals which are getting signed, have they also started contributing in terms of the ad growth?

Punit Goenka: So, I think on the advertising growth, as I have said earlier also, the market share gains over the last year have not been fully monetized yet and we are still going to monetize that over the next few quarters. Having said that, the 70 basis points has definitely contributed towards the accelerated growth. The telecom deals do not yet account for any acceleration in advertising growth because we do not separate out the advertising from the telecom platforms independently. But the OTT platform, ZEE5, has definitely contributed towards this growth as well.

Abneesh Roy: And sir you had earlier maintained that the deals with the telecom players for ZEE5, etc., they will converge to what you are getting from the DTH and cable companies, so today that announcement also came. So, from medium longer-term have they started already converging and have you got the analytics bit which you wanted in terms of the user analytics?

Punit Goenka: Yes, that is all part of our deals with them. ZEE5, because it is a B2C service, we use the telecom platform as a retail distribution platform. And as you know, our pricing on ZEE5 is Rs. 99 a month and currently we are running an offer of 1+1 free. So, anyway it is much above the yields that we get on cable or DTH.



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- Abneesh Roy:** And the last question - domestic subscription growth has also been a big positive surprise, though the base was also negative. So, is that the reason there is bunching up or have the new deals which are getting signed with the telecom players have started meaningful contribution?
- Punit Goenka:** No, I would not say that because the telecom deals are just going live as we speak. It is a reset of the Phase-III pricing that I have talked about in the past.
- Abneesh Roy:** And one follow-up in terms of the Middle East, because the crude oil prices are up, so for international advertising growth and subscription growth do you see a meaningful improvement there happening, at least in the Middle East?
- Punit Goenka:** Yet to see that traction come through, but overall we growing quite steadily at 13% plus mark.
- Moderator:** Thank you. Our next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.
- Kapil Singh:** My question is related to ZEE5. I just wanted to check, firstly, in terms of contribution to revenues can you share something, like how much it is contributing to ad growth or subscription growth this quarter?
- Punit Goenka:** Kapil, still very early to give numbers for ZEE5 standalone. But as I promised in the past, in FY20 we will start giving you the new numbers.
- Kapil Singh:** Okay. And if you cannot give that for ZEE5, but can you share overall what percentage of EBITDA margins for the quarter would be getting invested because of which your margins would be affected, any color on that?
- Punit Goenka:** As I said earlier also, we are confident that despite all the investment plans for ZEE5 and broadcast, we should be very comfortably above the 30% mark on the margins.
- Kapil Singh:** So earlier we talked about the 200-300 bps was getting lost or reinvested in new initiatives, so that would be the case in current quarter as well?
- Punit Goenka:** I am actually happy to report that it is more than that we are investing back. But the traction we are getting on our traditional business gives us that much headroom to invest more aggressively behind these initiatives.



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- Kapil Singh:** Okay. And would the ad revenues and subscription revenues for ZEE5 ramp up substantially with the telecom partnerships now coming through?
- Punit Goenka:** I would hope so, definitely. But it is a matter of when we start receiving the data on consumption is when we can arrive to that. But definitely, I would expect, and that is the reason for us to do the deal. Because we see substantial traction coming hopefully in Q3, Q4 itself.
- Moderator:** Thank you. The next question is from the line of Aditya Mathur from Citigroup. Please go ahead.
- Aditya Mathur:** Punit, a quick question on the balance sheet. I see that the inventory number is up only by about Rs. 80-odd crores. Could you just talk to us a little bit about what is your outlook on that? And also, around what your thoughts are around use of cash and dividends, buyback, etc?
- Bijal Shah:** So Aditya, on the inventory part, see the peak intensity of movie buying is definitely behind us. The inventory increased by around Rs. 9 billion on account of acquisition of movie rights last year in FY18. It is a bit difficult to exactly tell you what the increase will be or how it will move, but this year, the increase should not be even half of what you have seen in FY18. This quarter you would have seen that there is some increase in loans and advances, which is all towards content. A large part of that will get inventorized during the year and maybe early next year and some of that will flow through the P&L immediately. So overall, as I said, inventory increase or total working capital increase on account of our investments in movie rights acquisition and content will not be even half of the increase we have seen in FY18.
- Punit Goenka:** On your use of cash question, Aditya, I still maintain that as a company we need to keep about Rs. 1,000 crores or Rs. 10 billion of cash with us. And my recommendation to my board is always to pay back the additional cash by whatever form they deem fit. If you look at the last five to six years, almost two-thirds of our net profit has been paid out to shareholders by way of dividends, special dividends, preference shares, buybacks, etc.
- Aditya Mathur:** Right. And secondly, Punit, you also mentioned that you expect the subscription momentum to be better than what you had initially guided as low teens growth. Are you only talking about the TV business or does this also include what you are expecting from ZEE5 as well?



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- Punit Goenka:** Our ZEE5 subscription business was launched only 2.5 months back, in July. So, what I am talking about right now is the TV business. For this year, because we are resetting the pricing in Phase III, I expect that our guidance of low teens will be beaten for sure.
- Aditya Mathur:** So basically, whatever comes from ZEE5 will be over and above that?
- Punit Goenka:** Yes, because it is still early days, I cannot really quantify and give you a number on ZEE5, but we will share next year what the numbers will be.
- Moderator:** Thank you. The next question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.
- Sachin Salgaonkar:** I have three questions. First question is on margins. Wanted to understand what stops you guys from revising the margin guidance upwards? I mean, clearly it is a strong performance, even in 1Q it was strong. And sort of a follow-up question on the same line is, can you help us understand which line items do ZEE5 cost go in? For example, we are not seeing too much of an increase in SG&A this quarter?
- Punit Goenka:** So, the reason we are not guiding upwards for the margins is that we just launched ZEE5 in the international markets on 2nd October, and we have our plans to ramp that up over the next six months to practically all markets other than North America. And that investment is yet to be kicking in. For ZEE5 India itself, we want to ramp up our content investments in a large way, both on originals and film. So, these are the two factors why we are not revising the guidance on the margins upwards. What was your second question? Yes, Bijal take it.
- Bijal Shah:** So see, the cost is actually there in every single line item. So, operating cost is where content cost is going. You are saying A&P has not gone up significantly, but it has gone up by 17%. Now, just remember that in 2Q FY18, we had cost related to brand refresh and also cost related to 25-year anniversary celebrations, which were going into A&P, and that is the reason why base was itself higher. Despite those costs being not there this quarter, A&P cost is up by 17%. So, I think that explains why it is up only 17% despite investments.
- Sachin Salgaonkar:** Got it. My second question is on the subscription revenue outlook. Just wanted to understand, is this more like a catch up, because in the last few quarters you were not, obviously, given the situation on the ground, not getting fully captured into the



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revenues? Or is this more like some deals signed upfront, typically what happens in second half? Just trying to understand how sustainable this growth is.

Punit Goenka: Sachin, as I said, this is a reset of the value of under-monetized markets, so it is resetting of the base. It is not necessary that this kind of growth can continue.

Sachin Salgaonkar: Okay. Got it. And my last question is on ZEE5. I mean, when I look at the Google Play downloads, ZEE5 comes in the category of 10-50 million downloads. And clearly, you have 40 million active users. So, this ratio is perhaps the best amongst all the apps out there. Two questions out here: one, how many of these monthly active users are the ones which are actually subscribed to your Rs. 99 pack? And second, just wanted to understand, how you define a monthly active user?

Punit Goenka: So, subscribers number out of the MAUs is a very small number. As I said earlier, we are just about 2.5 months into the SVOD service. We are not disclosing that number yet. Give us some more time to ramp it up and then we will share it with you.

Bijal Shah: Sachin, MAU is a very standard definition. We are using Google Analytics for traffic measurement, and that is a standard tool, and it has a standard definition for users. So as per Google Analytics, our user base is 41 million. Now, you might have felt that ratio is slightly higher in our case and there are two reasons for that. Our app is relatively new and if you actually have app for say 4 -5 years, then probably there is lot of people who download the app then uninstall. So, we will also go through that cycle, that's number one. And number two, initially there is good amount of traffic which comes from web also. People sample on the web and then actually they start downloading. So, there are good amount of MAUs right now coming from, I mean, initially come from web, that is the case with us. So, over a period of time, those guys will also start downloading the app and then you will see downloads going up. Then our ratio will also be similar to that of our competition.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Two questions. One, on the subscription revenue. Now you did mention benefit of re-pricing for our Phase-III subscribers, aiding the growth in this quarter. Now, one clarification, whether most of the volume-based growth for Phase-III subscribers is already there in the base? And the pricing that we are charging for Phase-III now, is it more or less at par to the Phase-I, Phase-II pricing?



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- Punit Goenka:** No, it is a combination of discovery as well as pricing. And Phase-III pricing is nowhere close to Phase-I, Phase-II.
- Ankur Periwal:** So, there is still some catch-up there to happen in terms of the gap between Phase-II and Phase I, and Phase-III and Phase-II?
- Punit Goenka:** Well, I do not expect Phase-III to become same as Phase-II because that is a smaller market, and the paying capacity is also much lower there. Therefore, they may be buying lesser channels of ours and not buying the entire bouquet. I think it is a function of whether that market can afford content or not.
- Ankur Periwal:** Sure. But will it be fair to say that Phase-I and II pricing will be largely similar?
- Punit Goenka:** Yes, absolutely.
- Ankur Periwal:** Okay. And second question on ZEE5, especially on the international expansion. Now, is it fair to assume that we will be entering distribution tie-ups over there as well? So, any progress if you want to share at that space?
- Punit Goenka:** Ankur, we just launched on 2nd October. It is still very early to start announcing any deals yet, but we are in active dialogue with a lot of distribution partners, whether they be telcos or broadband players. OEM deals are being negotiated on a global basis, not just in India or international basis separately. So, wherever possible we are doing deals or negotiating deals which are encompassing the world, especially on connected devices and smart devices But yet, early to talk about anything yet.
- Moderator:** Thank you. The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri:** On the subscription, sorry for repeating this thing, but the way I understand it, whatever we have got for the first half reflects the average of what we will continue to get on a quarterly basis. Is my understanding right?
- Punit Goenka:** Yes. In absolute terms, you are right.
- Vikash Mantri:** Fair enough, sir. That's because I do not expect them to, while the contracts would have been signed, they will not pay you more than what is required, so that's the point. On the balance sheet, now we talked last quarter about improving our treasury



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operations, but I see that your other current assets, which reflect largely our intergroup number, that has gone up actually.

Bijal Shah: Can you tell me exactly which line item you are looking at?

Vikash Mantri: So your other financial assets have gone up from Rs. 179 crores to Rs. 419 crores. And that is exactly the number which talks about related party largely.

Bijal Shah: No, so there is nothing to do with related party out there. Punit talked about SGGD in the opening remarks and that settlement has been done. We will be receiving that money in this quarter itself. As a result of this settlement, this item has actually moved from other investments to other financial assets.

Vikash Mantri: And we are receiving the full amount along with interest or what is it?

Punit Goenka: So, Vikash, while this asset was contracted to earn a 17% return, now in effect, once we receive the money, it will be an 11% return to us. There is some shaving that we are taking.

Vikash Mantri: Okay. And the other current assets, which have gone up, and which Bijal talked about, these should finally reflect in the year-end inventory numbers?

Bijal Shah: Most likely year-end, some of the investments may not come through year-end because those are production advances. But largely it will come through in the inventory and a good part of that will go through P&L also.

Vikash Mantri: Okay. On the Jio front now, we talked about signing a deal yesterday. Could we understand what kind of a deal is this? The data in terms of consumer usage, is it a deal similar to Hotstar, where the landing page is Hotstar, or is it still ZEE5 a landing or we are giving the entire content?

Punit Goenka: It is a combination deal where the linear channels will be available on JioTV and the rest of the content will be available only on the ZEE5 platform.

Vikash Mantri: So, consumers will be linked to your ZEE5, and end-consumer usage and data will all come to you?

Punit Goenka: Yes, it will all come to us.



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- Vikash Mantri:** And when we talked about Airtel, we had data about minimum guarantee plus usage-based or video-watched-based remuneration. Could you help us what kind of a deal is this? Because when we broke off ties it looked like we were still happy with it. Now why this reason for coming together again?
- Punit Goenka:** Well, obviously, we would have got something in return, right? Otherwise, why would we go and do a deal. So, while I cannot disclose to you the contours of the deal, but definitely we have got better terms than what we had in the earlier contract.
- Vikas Mantri:** Okay. Fair enough. Just a feedback, Punit, we would generally want more time between announcement of result and investor call.
- Punit Goenka:** I know, sir. Point noted, yes. But if you have more questions, we can take it off-line.
- Vikas Mantri:** Yes, you did not give me enough time to absorb the results, that's the problem.
- Punit Goenka:** That is why I am saying to take enough time and then we can take any questions you may still have, off-line.
- Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.
- Alankar Garude:** Two questions from my side. Firstly, in terms of time spent by a viewer on ZEE5, how much time is being spent on originals and broadly how much would be on re-runs or library content?
- Punit Goenka:** So any consumer that comes in, either comes in for the AVOD platform or comes in for the SVOD or both. Obviously, a paid subscriber spends lot more time compared to just a free subscriber. I cannot really give you an answer as to who and how much he is spending more, but in catch-up, if I give you some color, our consumption right now in regional languages is far higher than in Hindi. So, overall it is very diversified. But difficult to give you a breakdown on paid versus free. So, the 31 minutes that I talked about, that is the average consumption per user or per person who comes in, on a daily basis.
- Alankar Garude:** Understood. So basically, just to clarify, you meant that consumption of catch-up is happening more on regional languages than on Hindi?



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- Punit Goenka:** No, I am saying overall for the platform, whether it is paid or free, the regional languages are contributing almost 60% of the viewership. So, our strategy of going regional and playing the more local game has paid off, is what I was saying basically.
- Alankar Garude:** Understood. And secondly, compared to most, or rather some other platforms, somehow, I get the impression that ZEE5 is not spending as much on marketing. So, now that we will be launching almost 60 originals in the second half, should we expect a more aggressive ad campaign from ZEE5?
- Punit Goenka:** I do not agree with you that we are not spending enough on marketing. The reason, Alankar, you make that statement is because you do not account for what I spent on my own network, right? And some of my competitions do not have networks to spend on. We are spending significant amount of money, but obviously, this will only go up as we keep investing more and more in content.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC. Please go ahead.
- Rohit Dokania:** A few quick ones from my side. One is, can you talk about the industry ad growth in this particular quarter for the television side?
- Punit Goenka:** So, the industry ad growth in our estimation is still about 12%.
- Rohit Dokania:** And do you expect that to continue for the full year? Are you seeing any early signs of waning off? Any color that you can give on the festive season coming ahead as well would help.
- Punit Goenka:** From our perspective, for us, the campaign visibility is very high. We expect that the industry will continue to do around 12%. Obviously, you understand that in the festive season, the bigger content companies will get a disproportionate share compared to the long tail. And what we do not account for is the potential upside in the political campaigns that the news channel may get in the fourth quarter. I am discounting that and still saying that 12% is the normal growth for the current fiscal.
- Rohit Dokania:** Understood, Punit. Also, I see the employee expense has actually fallen on a YoY basis. I would assume that it should have increased because you are investing heavily in ZEE5 and other businesses as well. Could you please explain that?



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- Bijal Shah:** Yes. So, if you remember, in the third quarter call last year also we had this question. There is some reclassification due to which some part of employee expense is now going into other expenses, certain reimbursement related costs. And that is the reason why other expenses have also gone up significantly. This is probably the last quarter when you are seeing this, going forward the base would have corrected.
- Rohit Dokania:** Also, on the ZEE5 platform, can you give us the number of downloads, at least on the Android platform, for us to understand how the app downloads are? And also, out of these sort of 40-, 41-odd million monthly active users, how many of them are coming from the app?
- Punit Goenka:** Rohit, I cannot share more details right now than what I have shared already. But the trend is that the web platform is reducing and the app platform is increasing. So the inflection point has happened already, and you will see now most of the conversion happening on the app itself.
- Rohit Dokania:** Sure. Understood. Just one last bit from my side. Any one-offs in this quarter, either on the subscription revenue front that you can call out?
- Punit Goenka:** No, nothing on the subscription front. Bijal, anything?
- Bijal Shah:** So, nothing in the subscription revenue line item is a one-off, but definitely, we have benefited on account of some catch-up from the previous quarter also and some Phase-III realization.
- Moderator:** Thank you. The next question is from Vivekanand Subbaraman from AMBIT Capital. Please go ahead.
- Vivekanand Subbaraman:** Thanks for sharing the usage statistics on ZEE5. Following up on your comments on the app gaining ground vis-à-vis overall consumption there, what proportion of traffic or other monthly active users come from your progressive web app? Is it possible to disclose that? Secondly, while I appreciate the commentary on breakeven of ZEE5 in 3 to 5 years, it would be great if you can help us understand your vision for ZEE5 in terms of the contribution of that platform to your overall income over a 5-year period. And lastly, with respect to the longer term trend of monetization, do you think that ZEE5 will follow a similar pattern as your pace business, where 60% of revenue comes from advertising, 30%, 40% from subscription?



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- Punit Goenka:** Yes, so it would not be fair right now for me to share the details beyond what I have shared in terms of the metrics on ZEE5. Our endeavor, obviously, is to move as much traffic to the app from the web version. Having said that, we will never do away with the web version because that's our funnel for attracting the early users. I mean, people come and sample us there before they move or commit to an app kind of environment. In terms of performance, if in 5 years ZEE5 is not 30% of my top line, I will be highly disappointed. The last part, can you repeat that again, Vivek?
- Bijal Shah:** Subscription versus ad revenue.
- Punit Goenka:** The trend will be similar in our view. I do not think the trend will be very different in the digital space compared to TV. So, I think it will remain in the same ballpark in a 5-year kind of horizon. Obviously, at first, advertisement will be probably even higher, and then it will start tapering off as subscription builds.
- Vivekanand Subbaraman:** So, did I hear you correctly, you said in five years your aspiration is to get 30% of overall business from ZEE5?
- Punit Goenka:** Minimum, right? I mean, if it is anything less than that then it is quite disappointing. And keep in mind that my overall business also will continue to grow.
- Moderator:** Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla:** My first question is on the 41 million MAUs that you have reported for September 2018. Two parts to this question, can you give us a sense of what is a de-duplicated MAUs with respect to vis-à-vis the 41.3 million that you have reported? And just a rough approximate number also, percentage would be great, what is the average DAUs you had in September? And how it has changed with respect to April 2018? That is the first question.
- Bijal Shah:** So, on MAUs, Google Analytics' tool does its own de-duplication and this number is after de-duplication, though there might be still some amount of duplication. But understand one simple thing, 90% of the traffic is coming in India on mobile. And I mean, there is really nothing like one guy buying a subscription and that being shared by 10 people. So largely, number of log-ins and uniques would be similar, there will be some duplication which has been taken care by Google Analytics, which is the tool which we are using for measuring our user base.



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- Punit Goenka:** On the DAUs to MAU conversion, we are still not sharing data, Sanjay. Please bear with us for a few more quarters.
- Sanjay Chawla:** I mean, any broad range would be really appreciated, whether we are looking at the teens or 40% or 5%, something of that sort would really help, if you can share?
- Punit Goenka:** Again, Sanjay, I am repeating, please do not push us. We are sharing data. It is a very new platform, just about seven months old. I don't think I should put that kind of pressure on the team that it breaks down. So, let us keep working and we will continuously deliver to you more and more data as we go forward.
- Sanjay Chawla:** Sure, appreciate that. When you first shared the average time spent per day, this is based on the DAUs?
- Punit Goenka:** Obviously, how else will it count, Sanjay.
- Sanjay Chawla:** And second question is, I missed the earlier part of your commentary at the start of the call, what is the number of original content hours you have planned for this year and maybe next? And would you be accounting dubbed content hours in that as well in that figure?
- Punit Goenka:** So, what we count in original content is the original content that we create for ZEE5 platform. If we dub that content, definitely we count it as original hours. But, for our non-dubbed part itself, our target for the 18 months was about 500 to 600 hours of content, and we are on track for that.
- Sanjay Chawla:** Okay. So 500 to 600 hours you mentioned, this is without counting the dubbed?
- Punit Goenka:** Yes.
- Sanjay Chawla:** Okay. And the last question is just on your VOD network content which is not behind the pay-wall. In what ways you think your content, VOD network content, is differentiated vis-à-vis your competitors from an AVOD point of view? And the second part is, what is your thought process in keeping live TV behind the pay-wall?
- Punit Goenka:** So, live TV is really live, it is probably competing with the likes of the DTH and the cable companies. And because you pay there, hence we have kept it behind the pay-wall. If you look at the AVOD content, all content, post airing, goes out to the AVOD platform. Now, how is our AVOD platform different from competition? Not really,



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because most of our AVOD content is our television content. And the only differentiation is that it's unique to us. So nobody else can have that content on their AVOD platform. My AVOD content is unique to me.

Sanjay Chawla: Okay. Just a last bit related to that is, are you allowing your content to be cast on the larger screen in these deals with the telcos?

Punit Goenka: If you pay, you can do whatever you want do with it.

Moderator: Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jai Doshi: First question, can you give us an update on new channel launches? You were planning something in Kerala market this quarter? And any regional movie channels that you may be planning?

Punit Goenka: So, Jay, as of today we have only plans to launch ZEE Keralam, which will come in the month of December. For this fiscal, I do not foresee anything else coming in any of the languages, either movies or Punjabi, as I talked about. I think they will all shift to the next fiscal.

Jai Doshi: Understood. Second is on inventory. So, your comments for the full year spends on movie acquisition indicate that there will be moderation from previous year. But on the other hand, you also mentioned that solid underlying profitability in the television business will allow you to invest more in movies which you intend to. So there is a little bit of disconnect between the two. So, if you could give us some more color on what are your movie spends likely to be over the next one or two years, the way you see inflation right now?

Punit Goenka: I will cover a part of it, Jay, and then Bijal can complete it. If you look at the inventory that we created over the last two years, a large part of that inventory will start passing through the P&L in the coming years itself. But having said that, our domestic broadcast business revenue is far outstripping the cost line. Bijal, you want to give the details on that? Would you explain how we are not adding additional inventory going forward.

Bijal Shah: So, Jay, there will be some increase in the inventory and advances in the entire working capital which is deployed for movie acquisition. What Punit just commented



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is that we have enough and more headroom to invest, if there is a need. So, if there is, I mean, there are lot of questions from investors that what happens if there is more intense competition in the digital space. So, what we are saying is that we have more room to invest as our broadcast business is doing very well. At this point, our guidance is that increase in inventory plus working capital relating to movie acquisition will not be more than half of what you have seen in FY18. In FY18, it was around Rs. 9 billion kind of an increase.

Jai Doshi: Right. So just a quick follow-up on that, or maybe another question. So you mentioned 500 to 600 hours of original content over the next 18 months. Now most of your series released so far are about 2.5 to 3 hours, seasons are 2.5 to 3 hours. So, if I were to use the same sort of duration, then it translates into 200 odd seasons. So, am I missing something, or do you also include international licensed content in this 500-600 hours of original content guidance?

Punit Goenka: So, Jay, when you look at when we say 1 hour, it is actually about 40 minutes of content. So, do not go by the technicality of it, because the nomenclature is more TV-centric. When you say 0.5 hour or 1 hour, you do not really have content for the full 1 hour. Having said that, there will be longer seasons that will come in. We are yet to get to a run rate of 1 series per month in all the six languages. We will only start hitting that in another six months' time. So, there will be a lot more content churning out in the regional languages compared to where we are today.

Jai Doshi: Right. On Jio deal, your original content will also be available to Jio users for free? Or it's only the live TV that will be available to Jio Prime users for free?

Punit Goenka: Only the live channels will be available to Jio consumers for free on the Jio TV platform. All other content, everything that sits behind the paywall on my platform, is available to Jio consumers if they pay for it.

Jai Doshi: Understood. And on movies, would it be possible for you to give us some indication on the number of digital right, sort of movie library for digital and television, in terms of number of movies?

Punit Goenka: So total number of movies in our library is now exceeding 4,100, of which we have digital rights for more than 3,000. And I am talking about exclusive rights.

Jai Doshi: Exclusive digital rights of 3,000-plus movies?



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- Punit Goenka:** Yes. You would not see all 3,000 sitting on the platform today but they are being brought on as we speak. It's being populated as we speak. So over the next three months, you will start to see all of the 3,000 titles available on ZEE5.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.
- Dipesh Mehta:** Two questions, first about the advertisement growth. Punit, do you think now considering the H1 has played out very strong for us and the network market, any change in your advertisement growth outlook than what earlier you alluded to?
- Punit Goenka:** So, it will definitely slow down compared to H1 because we are monetizing very, very aggressively. I still expect in H2 to beat the industry growth, but obviously, it will not be at 23% kind of levels. It will slow in H2.
- Dipesh Mehta:** Okay. And what category, because if you want to look at it from some of the consumer companies, it seems to be some kind of moderation is coming into, kind of. So if you can help us overall category-wise your broad outlook kind of thing? How you see overall market?
- Bijal Shah:** See, at this point of time, overall market looks pretty decent. And I mean, one thing you need to keep in mind that in first half the base was very favorable because of GST implementation in first half of 2018, so that benefit will not be available in the second half. But otherwise, we are seeing good traction in FMCG for sure. And other categories are also growing at a healthy pace.
- Dipesh Mehta:** Sure. And last thing, is it possible to, I think, give some data on how much would be movie-related consumption on OTT? Let's say, out of 31 minute, what would be movie-related kind of thing? Is it possible to share those statistics?
- Punit Goenka:** Not at this stage, Dipesh. I think it is still early days. I mean, once 3,000 movies are populated and we have 500 - 600 hours of original content, then to see that as a trend line will be far more predictable than today.
- Moderator:** Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.



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- Yogesh Kirve:** So, my first question is regarding ZEE5. So we have now about 29 original series. So, are the series representative of what we are going to do over the next one year, in terms of the episodic lengths or of the mix of tentpole versus the regular properties?
- Punit Goenka:** No, it will start getting expanded because we are seeing that we get far more traction for 1-hour episodes than a 0.5 hour episode. Some storylines, or some genres of content, we will be scrapping altogether. We are still learning. As I said, we only have 2.5 months of data, right? So, it's a learning phase for us how all that will happen, and the ZEE5 team is constantly updating their plans going forward.
- Yogesh Kirve:** Right. And sir, we talked about 500 hours of original content, so if you see, right now, the average length of our content per series is, like, 2 to 3 hours, and we are talking about 100 series. So, I was sort of, not able to reconcile this number. So are we talking about the future, the series would be longer than what we are doing so far?
- Punit Goenka:** Yes, we cannot have the same yardstick for everything. There will be series which will be even shorter and there will be series which will be longer, depending on the storylines and what we need to do. Unlike television, where it's a factory and we have to fill 260 episodes a year, here, we do not have any of those benchmarks or yardsticks. Here, an episode can range from 35 minutes to a full-length feature film, which could be also a web series. So there is no benchmark. There is no yardstick for us to go by that this is what it is going to be going forward as well.
- Yogesh Kirve:** So, if you leave out our tentpole property, like, *Karenjit Kaur*, so what are remaining series? Is it fair to assume that the content cost would be similar to that on television?
- Punit Goenka:** No. The content cost will not be similar to television, they will be higher. If you leave out the things like *Karenjit Kaur*, etc., I think you can safely assume a 3x kind of a number in your content cost compared to TV.
- Yogesh Kirve:** Right. That's helpful. And sir, secondly, it's more on the strategy. So, if we look at ZEE's success in some of the regional market, like in Tamil or West Bengal, or even to some extent on ZEE5 as well, you're able to gain traction without spending a lot of amount on the content, right? So given such track record, I mean, then we look at the investments that we are making in inventory, so where does that fit in? Why there is a need for so much of investments when we are doing much better with a lot lower investment in some of the regional markets?



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- Punit Goenka:** I do not think the word lower investment is the correct word. I think most efficient investment is the right word. Reason for the movie business inventory going up was when we sold our sports business, there was a question to us that how you get that audience base which is unique to sports, which is youth, male, etc. And the only genre that we believe can capture that audience significantly well is the movie genre. And we believe that we want to be the largest player in the film categories, across languages, across platforms and that's what we are working towards.
- Yogesh Kirve:** Sir, lastly, if you are seeing this sort of the inventory investment happen in the last 18 months, can you just broadly classify into how much of this is for the film production and distribution? And how much of it is for the satellite rights for television showing on television?
- Bijal Shah:** So, as we have said earlier, our working capital investment in movie production business would be around Rs. 2 billion. And the rest of the increase is primarily on account of movie rights, which is relating to satellite as well as digital. It is not only satellite, it is satellite plus digital. And some amount of investments are going into music also.
- Moderator:** Thank you. The next question is from the line of Bharti Sawant from Mirae Asset Management. Please go ahead.
- Bharti Sawant:** Sir, I have a question, wherein you have earlier said that over the next five years, you are looking ZEE5 and other initiatives to contribute roughly about, say, 25% - 30%; and at the same time, you also expect the growth rate or the growth momentum to continue in the core business, which is the broadcast business. So are we looking at more like a Rs. 18,000 crores to Rs. 20,000 crores kind of a revenue? Is that a vision for the next five years?
- Punit Goenka:** No, I do not know the math how you arrived at Rs. 18,000 to Rs. 20,000 crores. But definitely, I said that it should be minimum of 30% of my top line, and it can be definitely more than that as well. I think, at some point in time, the growth in broadcast business will taper off, but it will continue to grow in my view. But I quite didn't catch the math on Rs. 18,000 crore to Rs. 20,000 crores.
- Bharti Sawant:** So that was just assuming that if you grow, say, at the industry growth rate of about 12%, which is currently there. So, if I just assume, 10% to 12%, kind of CAGR for the core business, and then add value for your new business initiative, if you are assuming



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that to be 30%, so it takes to Rs. 18,000 crores to Rs. 20,000 cores. So just wanted your view? Is that the number that we have in our mind? Or what is the sort of number, say, what is your 5-year vision?

Punit Goenka: Bharti, I think we can take this off-line. I am a bit lost in your mathematics. Sorry about that. Is it okay if I take it off-line with you?

Bharti Sawant: Sure. Yes, one more thing I wanted to understand is, so you have already said that H2 would be lower, that is also because H2 of last year we had a higher base. But do we expect commodity-led inflation to really slow down the ad spends by the FMCG companies or most, as an overall, in the industry?

Bijal Shah: So, at this point of time, we are not seeing any pullback in ad spend on account of commodity prices. However, there could be some margin pressure that FMCG might feel going forward. But this time, situation is slightly different because there could be some margin pressure, but on the other hand, volume growth remains very strong and they have also benefited a lot on account of GST. And lastly, for 1 - 1.5 year, entire launch pipeline was choked on account of GST and demonetization. Those launches are happening now. So due to this, probably the pullback may not, if at all it comes, be as severe as probably we have seen in the past.

Moderator: Thank you. We will take the last question from the line of Jatin Chawla from Crédit Suisse. Please go ahead.

Jatin Chawla: Two questions. One is that on your advertising growth guidance that the industry will grow at 12% and you will grow higher. Does it imply that on a base of 25% growth, we are talking about more like 14% - 15% growth in the second half, even on that high base?

Punit Goenka: I would look at mid to high teens, Jatin.

Jatin Chawla: And just a clarification on the Jio-ZEE5 deal. It seems there are 2 parts to it: so one, when a consumer wants to access the paid content, he goes to ZEE5 and then he pays on the ZEE5 platform, he is not paying to Jio, right? So effectively then what Jio is getting there is a distributor commission, which Zee will pay to him rather than the customer paying anything to him?



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- Punit Goenka:** No, he can pay directly to ZEE5 or he can pay to Jio, and from there, I can get the money. So it is both ways.
- Jatin Chawla:** Okay. But are you ensuring then that the pricing is same? Because there are platforms where it is almost free for the customers if he is accessing paid content from, like Jio? And if the customer goes directly, then the pricing is different. So in that case, there is no logic for the customer to directly come to the app?
- Punit Goenka:** No, the consumer will come to the app only if he finds value in that content and only then pay for it, right? If that content is available free somewhere else, why would he pay to a Jio subscription?
- Jatin Chawla:** Yes. So, in your case, you are saying the pricing, even if he's paying to Jio, the pricing to the consumer ends up being similar...
- Punit Goenka:** Absolutely.
- Jatin Chawla:** Okay. And then on the live content, you just get paid for the content that you are sharing with Jio. So there are essentially two parts to the deal?
- Punit Goenka:** That is right.
- Moderator:** Thank you very much. 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.