Zee Entertainment Enterprises Limited

Q2 FY18 Earnings Conference Call

October 24, 2017

Edited Transcript

MANAGEMENT:

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Mr. Bharat Kedia – Chief Financial Officer

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

Moderator: Ladies and gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q2 FY18 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case 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: Thanks, Aman. Hello everyone and welcome to Zee Entertainment's earnings call to discuss company's performance in Q2 FY18. Joining us today on this call is Mr. Punit Goenka, Managing Director and CEO of Zee Entertainment, Mr. Bharat Kedia, Chief Financial Officer of Zee Entertainment, along with the other senior management of the company. We will start with a brief statement from Mr. Goenka on the second quarter performance. Subsequently, we will open the call for questions. 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 context of the risks that we face.

Thank you and over to you, Mr. Goenka.

Punit Goenka: Thank you, Bijal. 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 2018. It is an immensely satisfying and proud moment for us to have completed 25 years of operations and become the number one TV entertainment network of India. At Zee, it has been an exciting 25 years, during which we significantly increased our viewership and expanded our regional as well as global presence. This was achieved while delivering a strong financial performance, and it has been possible because of our ability to evolve our content offering in line with changing consumer preferences.

Another step in this evolution would be the launch of our new digital product, Z5, in the second half of this financial year. It will offer an unrivaled content catalogue appealing to all demographics and bring unique viewing experience to the consumer. We are satisfied with our performance against the backdrop of a tough macroeconomic environment during the quarter. Our advertisers were negatively impacted during transition to GST, which led to a temporary pullback on their ad spends. Post the decline in first half of the quarter, the growth recovered strongly and is back on track. Despite the adversities, our domestic ad revenue grew at 5.8% on a comparable basis.

The domestic subscription revenue growth for the quarter was at 7.2%. As against the early closure of deals last year, content deals with distributors are taking slightly longer due to litigations regarding the TRAI tariff regulation. However, our full-year outlook for subscription growth remains unaltered. Despite the loss of advertising revenue and elevated expenses during the quarter, we have been able to deliver a healthy margin of 31%.

The acquisition of 9X Media follows our stated strategy of expanding into regional markets and niche genres. 9X Media's 6 music channels enjoy leading market shares in their respective segments and will further strengthen our entertainment offering to the consumer. The channels will benefit immensely from our network strength and achieve higher growth potential and cost synergies.

EBITDA for the quarter was at Rs. 4.9 billion and EBITDA margin stood at 31%. The cash and cash equivalents for the quarter ended September 30th stood at 30.6 billion.

Now I will cover the business performance, starting with the broadcasting vertical. The pay Hindi GEC bouquet saw a sharp improvement in its market share, and the regional portfolio continued to perform well. Zee TV was the leader in the pay Hindi GEC segment and &TV also improved its market share. Our Hindi FTA channels, Zee Anmol and BIG Magic continue to perform strongly. In the pay Hindi movie genre, we continue to retain leadership position through our four channels. Regional entertainment portfolio continues to exhibit a strong performance. Zee Marathi maintained its market share at number one position in the Marathi market. Zee Bangla increased its urban viewership and was the second most watched channel in West Bengal. In Telugu market, Zee Telugu was the second ranked channel in the urban market. Zee Kannada maintained its position as the second ranked channel in Karnataka. Zee Tamil improved its market share as the third ranked channel in the Tamil market. Sarthak TV continues to dominate the Odia market. Big Ganga, the Bhojpuri channel was the leader in its genre. Zee Cafe was the most watched English entertainment channel and Zee Studio premiered some of the best movies from around the world. &Prive HD, an English movie channel, was launched for the premium audiences.

Moving on to other businesses, Zee Studios, our movie production division, released two movies in quarter - Mom in Hindi and Channa Mereya in Punjabi. Both the movies were received well by the audiences.

Zee Music Company, our music label, continued with its library expansion with acquisition of rights of both Bollywood as well as regional music. In Q2, our music label registered ~2.6 billion views on YouTube.

OZEE saw a sharp improvement in performance metric with an average of 115+ million video views per month during the quarter. DittoTV continued to see improved traction, leveraging its partnership with telecom operators. The strong performance of the two platforms provides a sound launch pad for our new digital platform, Z5.

With these opening comments, we would like to take any questions that you may have.

Moderator: Thank you very much. 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 the advertising front. Your peers are definitely lagging your performance. So my question was, in second half, the base becomes very favorable. So if we ignore that base and if we come back to how FMCG companies are spending, so we have seen because of demonetisation and GST, FMCG companies are cutting back. So do you need to search for new advertisers or you expect FMCG to come back strongly in the second half itself or you expect that it will be more like FY19? So in second half, in spite of favorable base, do you need to search for new advertisers, new categories?

Punit Goenka: Hi, Abneesh. So in terms of spending by the FMCG categories, we are seeing that on our network at least, they have come back with strong force. We have just renewed our deal with HUL on 1st September itself, which is known to all of you. Apart from that, e-commerce itself has also emerged as a good advertising category for the sector. So, I am pretty confident that in H2, we will have healthy growth in the mid-teens.

Abneesh Roy: And sir, your flagship channel ratings have improved significantly. So in terms of programming hours, have you met that 28 hours guidance which you had given exit for Q2? Do you need to do more in terms of maintaining this leadership because we have seen leadership for all the top 3 players becoming very, very dynamic in the past few months?

Punit Goenka: So currently, Abneesh, we stand at 27.5 hours of our original content on Zee TV. Our plan is to take it to 30 hours by the 3rd quarter end and potentially 32 by the end of the year.

Abneesh Roy: But sir, in the past, you haven't done 32 on a sustainable basis, right?

Punit Goenka: Well, if you look at the entire financial year 2016, we were ahead of 30 hours. It's only in financial year 2017 that we dipped below and we intend to bring it back. Based on performance of the 30 hours, we will decide whether to add additional 2 hours or not.

Abneesh Roy: My second question is on the HD channel pricing. Recently you have seen HD rates for most of the DTH operators come down significantly. Now, one of the operator is even selling HD channels at Rs. 160- 170 package. How does this impact you in terms of subscription revenue and advertising revenue? They will be positive for advertising and negative for subscription. Could you elaborate on that, how do you see this cut in pricing impacting you?

Punit Goenka: No, we sell bouquets to platforms. So bringing down pricing on HD doesn't necessarily mean that we will lose on the subscription revenue. While we'll definitely gain on the advertising revenue, our subscription revenues will remain as we have forecasted and our outlook for subscription revenue doesn't change.

Moderator: Thank you. We have the next question from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: I have three questions. Firstly, just a follow-up on advertising, and clearly on the Telco side Reliance Jio is claiming that usage on its network is 10 GB per month for the 100 million plus subscribers and that has not changed even after it moved from free to paid service. So a lot of content clearly is getting consumed on mobile. Question out here is, are we seeing advertisers, especially FMCG guys, showing some initial science of spending more towards digital? And if so, is it coming more at the expense of print or any other spend? Thanks.

Punit Goenka: So Sachin, thanks for your question. See, if you look at the consumption of content that is happening on whether Reliance Jio or any platform for that matter, it is driven by broadcasters' content itself. So a part of that 10GB content consumption that they are talking about also includes viewership of Zee content on their platform, and therefore our advertisers get the benefit of that directly or indirectly from that perspective. We have not seen any erosion on account of that happening yet. Also keep in mind that in India, we are a 94% single TV household market and therefore all the consumption that we are seeing on the digital platform is driven by out-of-home consumption or incremental consumption as we call it over and above the TV consumption.

Sachin Salgaonkar: So Punit, does that mean that incremental consumption will lead to better ad growth in the coming years, which is apart from TV and incrementally coming from your digital platform?

Punit Goenka: Absolutely. We hope to monetize our digital platform also in a big way going forward.

Sachin Salgaonkar: Okay. And no signs as of now in terms of any cannibalization at all, right?

Punit Goenka: So if you look at even when Reliance Jio was giving data free, vis-à-vis what they are doing, now that they are charging, even in the free environment, the TV consumption which stood at 158 minutes is still intact. It has not moved at all. So therefore I don't see it impacting television in a big way.

Sachin Salgaonkar: Got it. Second question is on your 30% plus EBITDA margin guidance. Now, clearly you guys did a very good job in first half which is despite the revenue being weak you were able to actually show a good margin. For the second half, the question out here is, should we perhaps see more front-loaded investments going into the revamp of OTT and hence some kind of a pressure per se towards your EBITDA margin guidance?

Punit Goenka: Sachin, our EBITDA margin guidance remains unchanged. Despite all our investments in digital or any regional markets that we are doing currently, for example, Tamil, we will be able to deliver 30% plus margin for the full year.

Sachin Salgaonkar: Okay, got it. And last question, on preference share redemption, what is the timeline we should look at and any change of thoughts over there?

Punit Goenka: No change of thoughts. We are still working on the tax efficient structure to figure out how to give it back to you all.

Sachin Salgaonkar: So hopefully in next 6 months?

Punit Goenka: Because a lot of regulatory aspects are involved, I can't comment on the timeline, but we are working aggressively towards that.

Moderator: Thank you. The next question is from the line of Vivekanand S from Ambit Capital. Please go ahead.

Vivekanand S: I have two questions. One pertains to the outlook for subscription revenue where you have held on to your guidance. Now, seeing that the deals are taking far longer to close, what is the sense that you are getting in the new regulatory environment? First of all, will it be implemented? And if so, how will the deals be structured? Will they, for example, the point that you made with respect to HD, broadcasters selling distributors bouquets and therefore DTH getting the flexibility to package, that will go away, right? So how will the deals be structured? And the second question is pertaining to the progress on your investments in the digital venture. What is the pricing environment like for digital properties? And also in movies, the acquisitions that you are making, how is the pricing environment there?

Punit Goenka: So on the subscription side, the implementation of the tariff order, I cannot really comment because the matter is still subjudice. But I do believe that as and when the tariff order is implemented, it will remove all the leakages or many of the leakages that exist in the system and hence should be positive for a company like ours. Can you repeat your last question again, please?

Vivekanand S: So, the last question is pertaining to the investments in digital and movies. What is the pricing environment like of digital content? And what are the key areas, the genres, or is it so that you are investing mainly in Hindi? And the second one pertains to the pricing of movies.

Punit Goenka: So I think we look at averages of the costs that we incur on content creation for digital or for television. It will be a combination of high cost programming and averaging out to be reasonable in terms of content cost for us. We will have aggressive amortizations as we have in television for that as well, which is all factored into our EBITDA margin guidance that we have provided to you. In terms of the investments, we can't quantify that because this is confidential and competitive information from our side. So I won't be able to give you a number, but our guidance already guides for all of the investments going into the business.

Vivekanand S: Right. Just one small follow-up. The increase in inventory and goodwill, both of them pertain to the movie investments or does it also include digital investments in a major way?

Punit Goenka: So the increase in inventory is for movies and digital content. On the goodwill part, Bharat, can you take it?

Bharat Kedia: Yes. So on the goodwill, we had an acquisition of IWPL, which we acquired 51% stake in this quarter…

Punit Goenka: 49.

Bharat Kedia: 49%, and that's the one where we had to, under Ind-AS, revalue the existing investment that we already had, 51% and the new investment and that's the goodwill creation that we have.

Moderator: Thank you. We have the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: Sir, understanding on the subscription portion, now I see that you have maintained your guidance. Now, is it because that we expect the contracts to be renegotiated by second half and we have a comfortable outlook that we will be able to match because we are looking at a 20% kind of a growth if I were to meet the mid teen guidance?

Punit Goenka: Bijal?

Bijal Shah: Yes. So Vikash, if you look at history of the company, I mean, the cable industry and DTH industry, generally large part of negotiations were happening in second half. It was only the last year when we saw it happening in the first half. So it is nothing that is very unusual. So if you look at our history, again, all the subscription revenue was not frontloaded. It was back loaded. So we we have seen some delays in finalizing the deals and there is really no worry from an overall perspective that we will not be able to deliver strong subscription revenue growth during the year.

Punit Goenka: And from all our negotiations that we are having, currently we are pretty confident of the numbers.

Vikash Mantri: Okay. On the inventory front, Punit, so from a company which used to be like 700-800 crores inventory just 3-4 years back, we have moved to a 2,000 crores, if I were to look at this quarter. Now, is it that while there is some portion of movies production and music and stuff, but it is largely to do with the significant movie satellite rights, I would say, and will this trend continue?

Punit Goenka: Vikash, if you look at 3 years back, our film acquisition strategy was driven largely on Hindi side, right? We were not looking at the regional markets in a very aggressive manner because we were predominantly running only GEC products. Now, having our strategy to expand into other genres, we need to be aggressive in buying films in the regional markets as well. So that is also a large function of the cost or the inventory is going up. Secondly, we also now are consolidating digital rights as part of our acquisitions. So while they may reflect only satellite, a large part of that inventory also carries digital rights along with it. So it is a consistent strategy for us. It will be lopsided in the next 18-24 months maximum and then it should plateau out.

Vikash Mantri: Okay. Two bookkeeping questions on the financial side. I could not figure out what would be a tax rate this quarter, because I assume that on the 160 crores IWPL also, there would not be any tax incidence. So what is our effective tax rate removing the exceptional and the other income? Or how should I understand that?

Punit Goenka: Bharat?

Bharat Kedia: Yes. So effective tax rate of the company is around 36%. The fair value gain that we had on IWPL as well as the goodwill, they are obviously not part of the tax calculation, because they are accounted as a consolidated level rather than a standalone level.

Vikash Mantri: Okay. And on the other sales and service, I see a significant bump up if I were to look at only domestic because earlier the other sales and service contribution, or even if I see last quarter, was contributed largely from international. So domestic, there is a big bump up this time. Is it any specific reason?

Punit Goenka: That is largely driven by our film business, Vikash, the music publishing and films that got released.

Vikash Mantri: Okay. And one last, I'm exceeding my quantum, but just can we share any metrics on 9X profitability?

Punit Goenka: It will be in line with our other entertainment products, Vikash.

Moderator: Thank you. The next question is from the line of Parag Gupta from Morgan Stanley. Please go ahead.

Parag Gupta: Punit. Just one question. We have seen over the last 12 months or so you have actually bought out a couple of other products in the market and most recently 9X. So just wanted to understand, over the next 12 months, you did mention some regional markets where you have some white spaces, but is there anything else, which you believe is better being done through an acquisition rather than being done organically? And can we see anything happening on the digital side as well?

Punit Goenka: So on the regional side, I do not see from where I am today any opportunity for consolidation currently in the markets that I pointed out, which is Kerala and Punjab. I believe those both will have to be greenfield. On the digital side also, because we have a strong base of subscribers on the back of OZEE and Ditto, we believe we are poised to launch our own product far better than trying to acquire somebody out there.

Parag Gupta: So would it be fair to say that there is no other space, segment, genre, anything available right now where you may imminently need to do any kind of an acquisition? Whatever needs to be done may have to be done organically?

Punit Goenka: Well, we do keep evaluating opportunities everyday as we speak. So I can't commit to you that there is nothing that will happen in the future, but from where I am today, in the three areas that you asked, no, I don't have anything to report or tell you concretely.

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

Kapil Singh: Firstly, on the content cost, we have seen a significant increase in content from 1Q to 2Q, but that doesn't really have any major impact on content costs. Could you help us understand that?

Punit Goenka: It's a combination of costs that happen across our entire network. So I think you are asking a very broad statement. I can't really comment on that per se. Movies cost would be the only thing that has come down in the current quarter because of amortization policy that we have. So Bharat, you want to add something else?

Bharat Kedia: So the programming cost includes television and movies, and in this quarter, we have a fairly low contribution of movies compared to what we had last year, and therefore the programming cost looks lower. Actually, if you look at only TV, the programming cost has increased in line with the original hours.

Kapil Singh: Okay. That helps. And would you be able to give some sense, like how much of the content is coming from our own studio?

Punit Goenka: So we do roughly about 15-18% of content in-house across the network.

Kapil Singh: Okay. And has that changed since last year?

Punit Goenka: No, it varies quarter-on-quarter. It may have gone up only. It may have been 15% last year and 18% now.

Kapil Singh: Okay. The second question is on digital side. Could you throw some light on what kind of content should we expect on Z5? And what would be the revenue model for Zee TV over next 2-3 years from digital?

Punit Goenka: So, in digital we will have both revenue models - advertising and subscription. Market to market, proportion of what drives how much revenue and how much is from advertising and how much is from subscription will vary. In terms of content, for now, I can tell you it will be completely unrivaled amount of content that we will put on the platform, which no other OTT platform will be able to match. So, give us couple of weeks or a month or two more before we can unveil our entire plan to you guys and to the public.

Moderator: Thank you. We have the next question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Just couple of questions. One is, you have reported a 5.8% like-for-like domestic ad growth. Does this include the impact of Zindagi being shifted from linear to OTT? If not, what would be the growth rate, if you remove Zindagi revenues from the base quarter? That is one. And secondly, can you just comment on the timeline of 9X consolidation in terms of when does it start reflecting in your numbers and would it be profitable at the EBITDA level from day one?

Punit Goenka: Bijal?

Bijal Shah: So, we shut Zindagi on broadcasting side on 30th June. So this quarter's number does not include anything from Zindagi. And typically we don't talk about channel wise numbers. I'll not be able to give you growth number excluding Zindagi.

Punit Goenka: On 9XM, we still have certain CPs to be completed along with some regulatory approvals. It could take anywhere between 45 to 60 days for us to consolidate into our numbers.

Sanjay Chawla: So are we expecting perhaps some consolidation in 3rd quarter as well?

Punit Goenka: No. It won't happen in 3rd quarter.

Sanjay Chawla: Okay. So just coming back to the domestic ad growth, 5.8% includes the impact of Zindagi shift also, right? Or it still would have been a bit higher?

Bijal Shah: Yes.

Moderator: Thank you. We have the next question from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Punit, my question was regarding to the content cost on digital. Is it fair to assume that the costs there are 2.5 times of comparable TV content cost?

Punit Goenka: No, that is not correct at all, Rajiv. As I said earlier, it is a combination of some high cost programming and some regular content. So therefore, we look at averages on per hour basis. We can't look at one show, which may have been produced at 2.5X of TV programming because in TV also, content gets produced at, something gets produced at 3x and something may be produced at X. So that also happens in television.

Rajiv Sharma: So where I was coming from is the fact that in TV generally, any show which gets little popular runs for 100-200 episodes, whereas in digital, it will be just binge viewing of 13 to 15 episodes at the max. So your entire set costs, your other related costs, so overheads are large enough to be absorbed in 15 episodes and that itself would make it 2.5x.

Punit Goenka: That is a little too much of details, Rajiv. I mean, for most of digital content, why would I make a set and take the cost up to 2.5? I would go and shoot in real locations rather than shooting it on a set.

Rajiv Sharma: Okay. No, because there is some element which tells me that, you know, so you will have to go out, but then there will be other costs. So that tells me that digital will be little expensive than TV. And in that case, I'm just trying to understand how will you maintain this 30% guidance.

Punit Goenka: See, again you have to look at the averages of the digital business, right? I mean, how much original content only for digital am I producing? I may be doing about 300 to 500 hours on a 12 year basis whereas on television, I will still put that entire 500 hours of TV content also on digital, which is already monetized on TV. So from that perspective, we have to look at the business as a whole and not one piece of the puzzle leaving the other entire piece out. So from that perspective, the margin guidance takes into account all those aspects.

Rajiv Sharma: So does that mean that we may not have any or we will have very little of exclusive otherwise we will have content which is there both on TV and digital and then what will be the difference between what we are doing today in digital versus what we plan with Z5?

Punit Goenka: Rajiv, very difficult for me to explain the business model to you on this call. Can we take it offline?

Rajiv Sharma: Okay. And one last question is, what is your assessment about the competition in the OTT space currently? Do you find it disruptive enough or you believe that it is still early days?

Punit Goenka: It is still quite early days, but we have some catch-up to do compared to some of our competitors and we are gearing ourselves up for all that.

Moderator: Thank you. We have the next question from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Two questions, one clarification. Where does the digital subscription gets accounted? And second, as you stated that large part of OTT viewing, say, on Jio or any other large operator, also has majority of portion coming from the broadcasters viewing that content. So that means once the deal renewal with Jio or any other large telecom operator happens, you will see a decent bump up in the subscription revenues from digital. Am I correct on this?

Punit Goenka: So subscription revenue on the digital business will sit in our subscription line. Whether it comes from a telecom operator or it comes from our OTT platform, that doesn't matter. And yes, you are right. As and when deals do get signed with telecom operators or get renewed with the telecom operators, there will be a bump up in subscription revenues and that's all factored into our guidance that we have given.

Naval Seth: And sir, any timeline you want to suggest that when your deal renewal will happen with the Reliance Jio in current year or next fiscal?

Punit Goenka: Sorry, we can't get into deal by deal details.

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

Kunal Vora: A question on international subscription. Like, over the next 2-3 years, how do you see this pie? Are you seeing an opportunity with increasing reach to digital or do you see some adverse impact as customers start cutting chords? Your thoughts on international subscription revenue.

Punit Goenka: You are absolutely right Kunal, that international subscription revenues for the South Asian business will be stagnated or start degrowing in the future and digital will be the answer for that going forward for us.

Kunal Vora: Okay. So net-net, do you see that revenue pie growing or like will it be just about maintaining?

Punit Goenka: No, we expect it to grow, but there will be some lag before we can start seeing the growth numbers coming in.

Kunal Vora: Okay, sure. And second, as you mentioned that a sizable part of digital viewership happens from content which you provide from broadcasters like Zee, is there a way you can monitor this? And like, what are the steps you are taking to increase your digital viewership, besides Z5? Z5 obviously will be trying to drive that, but how do you monitor this, your share, your viewership share on digital?

Punit Goenka: Because digital is a two-way environment, we get real-time data for us to measure what our viewership is, and therefore we can take steps, necessary steps to make sure that it grows continuously.

Kunal Vora: Sure. My question was more on market share that you will know what kind of viewership you are seeing, but otherwise of the entire pie, how your bouquet is doing? Is there a way to monitor that?

Punit Goenka: In digital world, yes, there is a way to monitor it.

Kunal Vora: Okay. And your trends are like looking good?

Punit Goenka: Yes, they are reasonably good.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Just want to understand about domestic advertisement growth. You indicated about you are seeing bouncing back. So can you help us understand we are seeing it is broad based kind of thing, all the categories are seeing healthy recovery or you are seeing some kind of pockets where weakness persisting and some of the pocket of strength? If you can provide some color there. Second question is about the digital business. Is it possible to share some data about how we have seen monetization improved in OZEE and Ditto over last few quarters? And with Z5, because we intend to launch in H2, it would be helpful for us to understand how it is shaping up because earlier concern was about monetization kind of thing. Now how you are placed considering smartphone penetration and Jio related phenomenon playing out? Thank you.

Punit Goenka: Bijal? Please take the first one.

Bijal Shah: In advertising, we have seen almost a broad-based recovery, and I think all categories have come back very strongly. So typically, there are some categories which grow even faster within that entire basket. So those difference, variance in growth is there, but overall all the categories are doing pretty well.

Punit Goenka: On the digital side, because OZEE and Ditto are doing reasonably well, we are monetizing them through the advertising route and subscription route, but definitely with Z5 launch, our monetization will improve significantly.

Dipesh Mehta: So we would like to have all the properties with digital or slowly and gradually some kind of phase out would be there?

Punit Goenka: No. So the day Z5 launches, both OZEE customers and Ditto customers will get an automatic upgrade.

Moderator: Thank you. We have the next question from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: The first question is on your advertising costs. You have mentioned that they have been higher in the first half because of all the new content that you have been launching. Would you expect this trend to continue in the second half as well, given that you are going to do a big digital launch?

Punit Goenka: Yes, Jatin. It will be higher also, not just because of the digital launch, also due to the fact that we are doing a complete rebrand of the network. There will be one-time costs also that will come in the current year on account of the rebranding exercise and the 25th year celebration.

Jatin Chawla: And those should be looked at as one-time costs and are they not part of the EBITDA margin guidance or the EBITDA margin guidance includes these one-time costs as well?

Punit Goenka: It includes these one-time costs as well.

Jatin Chawla: Okay. Second question is on your domestic advertising growth rate. Your commentary on the call is fairly positive in terms of all segments doing really well, but the mid-teens number on the kind of low base that we have in the second half, it seems that the growth can be a lot better than mid-teens given the kind of base that we have.

Punit Goenka: See, we are most certain that we will beat whatever the industry growth is going to be in the coming half as well. So if the industry recovers higher than the mid-teens, definitely we'll beat that growth also, is what I can comment for you. The mid-teens number that we are telling you right now is from the basis of the campaigns that are visible to us as we speak today.

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

Alankar Garude: The first question is on the profitability and original programming hours of &TV. Do we remain on track for a breakeven starting 4th quarter FY18?

Punit Goenka: Yes, we should be on track for that.

Alankar Garude: And sir, what would be the original programming hours right now and any target for the same?

Punit Goenka: We are currently at 24 hours. Q3 also will remain at 24. We will evaluate at closer to Q3 end as to what we need to do.

Alankar Garude: Sure, sir. And secondly, if this uncertainty around the implementation of the tariff order extends into FY19, is there any possibility of renewal of subscription deals getting delayed?

Punit Goenka: See, delay is only a matter of delay of time, but subscription deals will continue to happen as the DPOs, as defined by TRAI, need our content as much as we need their distribution power. So the current structure of fixed fee deals will continue until the time that new tariff order is implemented.

Alankar Garude: Okay. So basically the existing deals will get stretched till the new deal is signed?

Punit Goenka: No. New deals will also get signed in case the tariff order implementation is pushed to financial year 2019 as we said, because our deals will come up for renewal prior to that.

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

Jay Doshi: Would it be possible to give us some idea or quantify what is the amount of advertising revenue that you may have lost in this quarter because of GST-led disruption? And what is the quantum of onetime costs in the overall operating expenses?

Bijal Shah: So it will be very difficult to talk about exact dollar of ad revenue loss, but you can look at the growth before GST and demonetization, we were growing somewhere in mid to high teens, and you can draw some inferences from that.

Jay Doshi: Understood. Alright, anything on the cost side, onetime costs, would it be possible to quantify related to the rebranding exercise and other things that you may have taken up?

Bijal Shah: No. There are a few costs which I would not say is not out of ordinary, but they are not recurring, but we would not like to quantify. So this quarter we had elevated costs on account of 3 reasons; one is that we had a channel launch. Another is we had lot of shows, eight shows being launched on Zee TV and &TV, which typically every quarter is 2 or 3 shows. And on top of that, we had our brand refresh related costs for 25 years also coming, but we would not like to quantify the number.

Jay Doshi: Right. Sir, the domestic subscription revenue growth, it has been a little bit slow now. What is driving your confidence for guidance? I know you answered this question earlier. All I want to understand is, is it the case that maybe for the digital deals that you may have signed, the traction is much better than what you were anticipating at the beginning of the year, which is more or less compensating for perhaps some weakness on the pay TV side?

Punit Goenka: No. The digital subscription revenue is still a very small part of our subscription base. So to deliver on our guidance, we have to have significant growth coming, significant or part of that growth coming from the traditional business.

Jay Doshi: Understood. And for the OTT platform, the content that you may have procured so far, would it be possible to give us some idea what percentage of that content will be exclusively on your platform? Because what I understand is most of your content will be available on Jio platform. Some of the movies that you may have acquired, digital rights may also be available on other platforms. So just want to understand what percentage of your overall content on OTT platform will be exclusive to Z5?

Punit Goenka: So if you look at, the only thing that will be shared with other platforms will be the linear feed of the channels. On the VOD side of the business, all of the content that we create internally will be exclusive. All of the content that we produce in terms of films going forward will be exclusive. In terms of content that we have licensed from international studios, could be exclusive or non-exclusive depending on the kind of deals that is coming. Does that answer your question?

Jay Doshi: That is helpful. Thank you. And final bookkeeping question, what should be build as a full-year effective tax rate in FY18, given that the previous quarter also, tax rate on the P&L was much higher?

Punit Goenka: Bharat?

Bharat Kedia: See, we don't have right now a full-year computation, but where we stand right now, I think we are likely to be in the range of 35% to 36%, which is where we are basically.

Jay Doshi: Understood. But last quarter, you had some higher tax rate. So including that, at a full year, this will be 35-36% only?

Bharat Kedia: Last quarter we had higher because we had got income from a foreign subsidiary into India, which had been dividend distribution side, which is a benefit that we get when we will declare an equity dividend in India. So overall for a year, it neutralizes.

Moderator: Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Just one quick question. On the other income side, if I sort of remove the 160 odd crores of revaluation, it is just about 40 - 42 odd crores of a run rate, which appears to be significantly lower largely because of the cash that we sort of have. So could you please comment on that and how should one look at it on a full-year basis?

Punit Goenka: Bharat?

Bharat Kedia: See, the other income is the income that is – (a) earned on the investments that we have, which is the cash that is deployed temporarily, and (b) is because of the fair value gain that we had for this particular quarter. So if you normalize this particular quarter, then we have the gain which is the investment income, which is a regular income.

Rohit Dokania: Sure, but that appears to be too low, sir, for the kind of cash that we have, 40 odd crores on a quarterly basis.

Bharat Kedia: Yes. So the cash is being deployed at various places. We are also looking at a strategy in which we are putting this money behind inventory of movies, advances, receivables. So the cash is not completely in the liquid cash, which is being deployed. Only money that is invested is the money that is bringing the return.

Bijal Shah: So Rohit, to answer your question, what is happening is, you know that after sale of sports business, I mean, a good part of money came outside India, and in many of these locations the interest rate is very low to almost negligible. And that is the reason you don't see some part of that, I mean, the concomitant increase in the all other income. And secondly, sometimes even if there is other income, there is some adverse currency movement. So it is on account of these factors you are seeing other income which is actually lower than probably what the cash balance would suggest.

Rohit Dokania: Sure. This is very helpful. Any sort of guidance that you can give for the full year on the other income side? Will it be possible?

Bijal Shah: I think we'll just work out and come back to you on this thing.

Moderator: Thank you. We have the follow-up question from the line of Vivekanand from Ambit Capital. Please go ahead.

Vivekanand S: Couple of them. One, any update on the FTA genre and the deals that the windowing that the DTH operators were talking about and the industry agreeing to that, the broadcast industry, that's one. Secondly, with respect to the streaming of the linear content that you provide to Jio, so if consumers start connecting Jio Phone to TV, will that not threaten your subscription income from those consumers? Are there any safeguards for that? And what is the recourse that you can take? Do you get anything extra if the consumer streams content on the TV using Jio Phone because they are advertising this as a USP for the Jio Phone? Thanks.

Punit Goenka: Our current content license deal is only for streaming on their mobile handsets or mobile devices. They have to be paired with a SIM card. The cable that they have launched, we have not provided them rights for that for streaming to television as of now.

Vivekanand S: Alright. Sir, my first question on the FTA part?

Punit Goenka: On the FTA, we are fully compliant with the hold back clauses that the DTH companies have asked us to implement. In fact, we had worked with them together to come up with those and ZEEL as an entity is fully compliant with them.

Vivekanand S: I appreciate that, sir. What about the others in the industry? Do you find that the large broadcasters are reining in some sort of discipline amongst themselves and sticking to this windowing period or do you feel that this is very difficult to call?

Punit Goenka: Well, that is not my place to say, but I can only comment that if they do not, it will adversely impact their revenues on the subscription side as have been indicated by the DTH companies.

Moderator: Thank you. We have the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Yes. Sir, just one follow-up question. Your logo has been changed recently for your channels and also new tag line. Sir, my question is, internationally and within India also, do channels change their logo and their tag line so frequently, for established channel, that is one question. And second, we had discussed this earlier in this call itself, your ramp up in programming hours is quite significant, which you said was there one and a half years back also. So my question is, is both of this related to the fall in ratings a few quarters back for Zee TV? Is this related to both of these to that fall in viewership?

Punit Goenka: See, viewership is a function of number of hours and the quality of number of hours of content that you put out there. It's not by sheer adding the number of hours that I can ensure we will get the viewership, that is one. I cannot connect the two directly. While indirectly, of course, they do have impact on each other. That's the ratings part. On the brand refresh, on the logo refresh, while I have not studied the entire world market, but with time, I think every brand has to evolve and what may have been relevant 5 years ago may not be relevant to the consumer anymore, and therefore a logo change is not just a logo change. I think it is the point of view of the brand and what we want to communicate, which is the more important change than just a design change.

Abneesh Roy: But sir, for the flagship Zee TV, is there a stated desire now to be more stronger in terms of the market share versus, say, 2-3 quarters back? Earlier you were focused on a sweet mix of margins and market share. Now, is it that market share also is also equally important, maybe more important and then margins follow anyway? So you want to be a strong number one or number two player in Hindi GEC?

Punit Goenka: Always. There is no question about strong number two. We want to be the strong number one player in the Hindi GEC space. And I do not think that we would have sacrificed market share for margins even 3-4 quarters back. I think that was driven more from a demonetization event that was occurring. Having said that, I would rather have lesser number of hours delivering more ratings than more hours delivering and less ratings, if that makes sense.

Abneesh Roy: But sir, just one follow-up on this. So this strong number one, for example, your competitor, they show the latest movies also and higher cost reality shows also. Are you also open to those more versus now to get that strong number one?

Punit Goenka: If they make financial sense, yes.

Abneesh Roy: So there is no change to your earlier thinking. That was my question. Has your thinking changed on profitability versus market share for the flagship channel?

Punit Goenka: Well, if you are asking me market share at any cost, obviously that is not something that we will do. We will do market share at a reasonable profitability level as well, right? I mean, what am I going to do with market share if we don't have profitability?

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Sir. I joined the call very late. So apologies if these questions have already been asked. So first question was on the inventory side, on the balance sheet. Again, we are seeing after a reasonably large jump last year, again, we are seeing inventories actually go up quite substantially this time as well. So sir, just wanted to get a sense on what is going on here. So on the broadcasting side, we are sort of aware of your investments, but on the film and music side and on the digital side, if you can just sort of comment on that, please.

Bijal Shah: Yes. So Amit, it is primarily what it is the large part of increase, whether you are seeing it in advances or inventory level, is on account of movie rights we are buying at present and also for the future and this includes the digital rights. So large part of this will be explained by digital as well as satellite right of movies. There will be some increase in working capital on account of our investments in music and movie production. However, we would say that, for movie production, we do not expect total working capital to increase beyond 1.5 billion, and that guidance, we stand by even now. And in terms of music also, it is really not a large number. I mean, it is primarily movies for satellite as well as digital.

Amit Kumar: Just a quick sort of follow up on that. I mean, can you just tell us in this last six-month period, the first half, I mean, one or two sort of big marquee films that you have ended up buying and which is part of this inventory?

Punit Goenka: From a digital perspective or?

Amit Kumar: No, I mean, from both satellite as well as digital perspective really.

Punit Goenka: So if you look at our catalogue, in the last 6 months, you would have seen Raees, you would have seen Dangal, you would see Half Girlfriend, you will see Bareilly Ki Barfi, Toilet: Ek Prem Katha, I mean, several, so…

Bijal Shah: And this is only Hindi. I mean, actually we are buying across languages. So I mean, this is only Hindi we are listing out. There are many movies down south which we have got and which are very large.

Amit Kumar: Alright. Just one small one on this. My understanding was that Dangal and Raees were already bought in within the last year inventory as it is? That's broadly what you are saying over the last 12 months, is it?

Bijal Shah: Yes.

Amit Kumar: Alright. Understood. Sir, the final question, just a quick one on this redeemable preference share. Now that the sale to Sony is completed, initially the idea was that we will sort of use the proceeds of that to buy back some of the RPS as well. There was a thought around it essentially. So any sort of update on that?

Punit Goenka: Yes. It still stands. We are working on the taxation aspect as we speak, and because a lot of regulatory matters are involved in that, we are not able to give you a timeline, but our intention is still the same.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of Zee Entertainment Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.