Zee Entertainment Enterprises Limited

Q4FY18 Earnings Conference Call – Edited Transcript

May 10, 2018

Moderator: Ladies and Gentlemen, Good Day and Welcome to Zee Entertainment Enterprises Limited Q4 FY18 Earnings Conference Call. 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 telephone. 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, Zaid. Hello, Everyone and Welcome to Zee Entertainment's Earnings Call to discuss Company's performance in 4Q FY 2018.

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

We will start with a brief statement from Mr. Goenka on the fourth quarter performance subsequently we will open the call for questions.

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

Thank you and over to you, Mr. Goenka.

Punit Goenka: 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 fourth quarter of fiscal 2018.

As most of you would be aware, we launched our new digital platform ZEE5 in the month of February. We are happy with the initial response and are confident that the sheer depth and breadth of our content offering makes it stand out amongst the host of platforms present. With digital exclusive original content, an expansive movie library, catch-up TV, international shows dubbed in multiple Indian languages, music videos, kids entertainment, lifestyle-related content and extensive live TV offering across languages, ZEE5 is a one-stop entertainment destination for Indian consumers.

We have also focused on peculiarities of the Indian market and designed technological features to improve the user experience. Unlike most of the existing apps, which are either focused on the English-speaking segment or the youth audience, ZEE5's exhaustive content catalog is designed with an objective to cater to all sections of video viewing audience.

We are delighted with the strong operating and financial performance during the quarter. Domestic ad revenue growth of 24% is driven by broad-based recovery in advertising spends. With high visibility of product campaigns, improving consumer demand and GST related benefits trickling down to ad spends, we are confident of continued traction in advertising spending. The full-year domestic subscription revenue growth of 12% is a tad lower than our initial expectations due to some unforeseen events. However, there is no change in our medium-term outlook for the same.

EBITDA for the quarter was Rs. 5.06 billion with an EBITDA margin of 29.3%. Full year EBITDA was Rs. 20.8 billion with an EBITDA margin of 31.1%. The cash and treasury investments for the quarter ended 31st March stood at Rs. 32.4 billion.

Coming to the operational performance. In fiscal 2018, ZEEL was the number one network in the non-sports and non-news entertainment segment with an all-India viewership share of 18.0%. The network improved its performance in several regional language markets and became the leader in pay Hindi the GEC segment.

Zee TV maintained its leadership position in the pay Hindi GEC segment. The newly launched shows have performed well and further strengthened our position in the fiction genre. &tv largely maintained its market share in the Urban market. In the Hindi FTA segment, Zee Anmol was the leader and Zee Magic continued to perform strongly.

Our cinema cluster continues to retain its leadership position in the pay Hindi movie genre.

Our Regional entertainment portfolio witnessed another quarter of strong performance. Zee Marathi continued to be the leader in all prime-time slots and maintained its No. #1 position. In West Bengal, Zee Bangla gained significant traction and narrowed the gap with the leader. Zee Telugu maintained its share and is a close second in the urban market. Zee Kannada improved its market share as the second-ranked channel in Karnataka. Zee Tamil further improved its market share raking up its highest ever time spent number. Zee Sarthak continues to believe the leader in the Odiya market. Zee Ganga, maintained its strong viewership in Bhojpuri market.

Zee Studios, our movie production division, released two Marathi movies "Yere Yere Paisa" and "Gulabjaam". Both the movies were well received at the box office. During FY18, a total of ten movies were released across three languages: Hindi, Marathi, and Punjabi.

Zee Music Company, our music label, continued with its library expansion of both Bollywood as well as regional music. Further improving its performance during the quarter, the music label registered approximately 3.4 billion views on YouTube and is second most subscribed music channel on YouTube.

With this, I would like to address any questions that you may have.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with 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 Tamil market - you have done well with the highest time spent, etc. My question is that in a regional market like Tamil, where there is a strong dominant player and all the three national players are there, is that market big enough for four large players and what happens on the cost side? Will all the four players be viable from the longer-term perspective?

Punit Goenka: So, Abneesh, the rule of any business applies to us as well that the top three players make money and the fourth generally loses money, same rationale should apply even in Tamil market.

Abneesh Roy: And what has led to the highest time spent in Tamil? Your market share has also improved, could you talk about that?

Punit Goenka: Again, it is driven by higher engagement through ground connect as well as content that we have been able to put together and that is what is giving the traction.

Abneesh Roy: My second question is on ZEE5 - it has been only three months since launch. Do you think original fiction content and movie library is enough or you think sports or kids, which your competitors are doing, will be required at some stage, which is currently difficult because rights have been sold? And second is, could you give us some numbers on how we evaluate this business because you have tried it earlier also. So, in terms of the subscriber or in terms of time spend, if you have any data you can share to show how things are?

Punit Goenka: So Abneesh, definitely having sports is an easy way to grab eyeballs for a digital platform. Having said that, we have exited the sports business. We do believe that original content, as well as movies is good enough traction for attracting consumers to our platform. The other thing is the quantum of content created in local languages, which is a very attractive factor, and we know it as we have seen on television that consumers consume content in their preferred language of viewing. The same should apply to even the digital platforms.

I think, the metrics you should use for evaluating any digital platform is monthly active users and the time that they spend on every session. Having said that, three months is too short a period for me to start sharing numbers. At this time, I can only share that I am quite pleased with the performance in the first three months and at the end of the quarter two we will give you some numbers of where ZEE5 stands in the market compared to anybody else.

Abneesh Roy: A small follow-up here - you have plans of some 60-70 new shows in FY 2019 on ZEE5. So, will you be able to back-up so much with ad spend because I think that is critical for this kind of a new media? If you do not back-up, then what is the investment plan in terms of advertising for these 60-70 new shows?

Punit Goenka: All the original content that will be created sits behind the paywall and is not available for advertising at all.

Abneesh Roy: No, I am asking in terms of popularizing those shows you would need to invest in terms of media ad spend. That is my question.

Punit Goenka: Absolutely, we will have to invest to make people aware of the kind of content we are putting out there, how else will they come and discover it? So, we will be making adequate marketing spends for the shows. Obviously, you do not go and spend and promote every show that you do. You spend disproportionately on your tent-pole properties and that is when people start discovering all the other content on the platform.

Moderator: Thank you very much. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead. Mr. Kapil Singh, your line has been unmuted. Please go ahead with your question.

Kapil Singh: I wanted to check if there been any non-recurring or one-time kind of cost incurred during Q4 for ZEE5 or should we expect this kind of expenditure to continue for next few quarters?

Punit Goenka: There is a launch expense for ZEE5 that has gone into Q4. We will continue to spend in advertising going forward as well. Also, introduction of more original content that will come in will take the cost up. Having said that, we are pretty confident of still delivering 30% plus a margin that we have guided for.

Kapil Singh: Okay. Any number you would like to share like what was the launch cost?

Punit Goenka: Sorry, Kapil, we do not share those numbers.

Kapil Singh: Okay. And what kind of content cost inflation should we expect for next year because we have also seen significant investment in inventories, it is up by almost Rs. 950 crores. So, any color on that as well, please?

Punit Goenka: So what inventories you are referring to is predominantly driven by our movie strategy of buying satellite and digital rights as well as investing behind the production of films and that will continue going forward as well because that strategy has played out well for us. The original content, if you are referring in context of ZEE5, will not move the needle much, because if you look at it we produce close to 500 hours of content for our television business and I do not think we will be anywhere near that number even on annual basis for ZEE5.

Kapil Singh: Okay. So what kind of content cost inflation should we look at?

Punit Goenka: So, as I have said in the past, on a per hour basis increase in content cost will be inflationary. It is only when we add number of hours, it will move the needle**.** We have not changed our plans on the number of original hours significantly on any of our channels, but we will be launching in one of the markets in this financial year. But again, it should be all under control.

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

Kunal Vora: Sir, two questions. First, can you share the thoughts on digital video advertisement, like revenue share and who is doing well. It looks like the market is dominated by YouTube with broadcasters, Facebook and Telcos looking to get a share of the pie. So, would it be possible for you to give some numbers like what your thoughts are and what your aspirations are in terms of digital video advertisements?

Punit Goenka: So, if you look at the growth that you are seeing in digital advertising, a significant part of that is being driven through video consumption. As you rightly said, YouTube is leading that in terms of volumes. But my view is that in terms of value, it will be professionally made content which will have an edge going forward. Does that adequately answer your question, Kunal?

Kunal Vora: Partly. Actually, I was looking at Google's revenue, it was almost Rs. 7,300 crores last year which is quite large. So, it is looks like they are not only capturing the volumes but also in terms of value they seem to be doing very well…

Punit Goenka: You need to strip the search revenue from that before we can talk about it. A large part of that comes from search and not from video.

Kunal Vora: Okay, sure. Understood, fine. Second question on revenues from the telecom operators. They now have over 300 million customers and they have decided to keep the services free for one more year. So, how are the collections and is the revenue keeping pace with which the customer additions they are doing. At some point in time would you decide to charge a lot more compared to what you are charging right now?

Punit Goenka: Definitely, we will be re-entering the negotiation phase as and when the contracts come up for renewal and we will be asking for the fair value of our content. Even if the Telcos want to give it free to their customers, we would still need to get a fair share of the value, which we are investing in content significantly.

Kunal Vora: Will that number like start becoming meaningful for you? Is it like a meaningful number for you or any number which you can give out, because already 300 million customers are getting access to the content while they might be not be watching all of them but….

Punit Goenka: Kunal, we do not give party-wise details on our subscription deals as that will not be fair. But let me assure you that the growth trajectory of those numbers will be higher than the regular cable and DTH companies.

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

Parag Gupta: Firstly, on your digital strategy Punit, what I was just trying to understand is that you are talking about maintaining 30% margins going forward as well, which obviously means that you are not going to be spending a lot of money on advertising relative to what some of the other players are trying to do. So, what I am just trying to get at is that with your digital strategy, what do you think you are trying to play for? Are you there because you think consumer behavior will change and they are looking for different content or are you doing this because you believe at some point in time advertising will shift to digital and hence, you want to capture the entire pie. So, which is the key priority for which ZEE5? So, that is question number one and related to that and the way the market is at this point in time, what do you think could be the outlook for advertising and subscription growth for fiscal 2019, on the back of both your broadcasting business as well as the digital business?

Punit Goenka: So, Parag I think first statement of yours is not correct in my view that we are not investing behind the digital business in terms of advertising for it. If I were to stop all my investments today, I can deliver margins upwards of 35% and I am guiding for a 30% plus margins. So, all of my new businesses are taking almost 500+ bps of my profit and you can do the calculations better than I can. So definitely, we are going to invest behind it to try and make it into a real formidable player in the digital space. Reason we are doing that is that at the end of the day we are a content company and if the consumer's preference to consume content is not on television but an alternate screen, we are going to make sure that we are available on that screen as well. We are looking to capture the entertainment mindshare of the consumer, not just on a television screen but on every screen that he chooses. That is also the reason for our investments in the film production business, in digital business and also in the live entertainment business. That is my answer to your first question. Do you mind repeating the second question again?

Parag Gupta: I was looking for what could we be thinking about advertising and subscription growth for FY 2019 given that you will also have some incremental revenues coming in from ZEE5?

Punit Goenka: So, the industry is expecting a 11% to 12% kind of number for the television. Our endeavor will always be to beat the industry number and obviously the margin of beating the industry number will depend on how our viewership share changes going forward. On the subscription side, we are pretty confident of low teens kind of delivery given that the TRAI's tariff order matter is still sub-judice and we do not have any visibility as to how and when it comes out.

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

Ankur Periwal: So, continuing with the domestic subscription bit, FY2018 did see relatively slower growth, essentially because of some confusion regarding the implementation of TRAI's policy and the legal angle is still there. Probably it may get implemented by the end of this calendar year or next financial year, but what happens till then? Are we still continuing with the older deals or there is some inflationary hike which we take across the deal?

Punit Goenka: So, every deal definitely has an inflationary hike for us. The reason for last year number being a bit lower than our expectation is also due to the fact that one reasonable size player has gone away from the market in the DTH segment. That has also led to a certain amount of slow down for us. Having said that, given the current situation, we are largely in the fixed fee regime itself and we are a low teens kind of growth.

Ankur Periwal: Sure. So Punit, for Phase-III subscribers, as and when they get digitized, that number still remains a lump sum deal with that inflationary hike, or there is probably a higher hike there?

Punit Goenka: It is a combination deal that we do. A large part of the hike coming in is on account of Phase-III because as you know the ARPUs in Phase-I and Phase-II has not moved significantly. Therefore, to expect too much hike from those phases will be unfair on our DPO partners.

Ankur Periwal: Sure, that is helpful. Secondly Punit, on the content bit, you did mention that inflationary hike on a like-to-like basis plus some bit of volume growth wherein we are focusing to increase the original content. Just trying to understand the same from a digital, from an OTT content perspective. How are we accounting for the OTT content? Will it be fully accounted for in P&L or how is the structure there if any clarity has emerged?

Punit Goenka: It is pretty much in line with the television policy.

Ankur Periwal: Okay. The content once shown will be fully amortized in the P&L and first year itself?

Punit Goenka: No, our television policy is 80-10-10. And the policy for digital will be in line with that.

Ankur Periwal: Okay. And movies will be similar as for our TV bit?

Punit Goenka: Yes, I mean we are not expecting any change in that right now?

Ankur Periwal: Okay. And any timeline we can look forward to for the international launch of ZEE5 as well or it is still some time away?

Punit Goenka: No, it is maybe in the next quarter or two itself. We will be going territory by territory and it is not going to be a global launch at one go.

Moderator: Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Two set of questions. On the subscription side Punit, you said you are tad disappointed with the results and clearly, that is because of the DTH problem also. My question is that you no more have the sports portfolio. So, does that reduce your bargaining power with the distributors and is that the reason we have got into many more tiffs in last quarter then regular? Also, we are seeing consolidation in the DTH space among two players. So, does the outlook change from a DTH space in terms of our Pay TV revenues also for FY2019?

Punit Goenka: Vikas, thank you. My view is that because the sports business has gone away that has not taken away any leverage in terms of our negotiation power and as you can see, from the tiffs that you mentioned, that we have emerged victorious there as well. Therefore, our entertainment content without sports is also in demand and we are able to take increases as and when they come along. Having said that consolidation does help the other parties also but as long as my content is relevant, I am pretty confident of getting the right value for my content.

Vikas Mantri: Okay. On the inventory side, we did talk about that investment in movies will increase last quarter as well but I was surprised with the quantum of increase of Rs. 700 crores in this quarter. Now the way I see it is, generally it is a five-year amortization on the movies front. So, from two years back, where you had Rs. 1,300 crores sitting in inventory, the annual amortization of which would be maybe close to Rs. 300 crores, now you will be amortizing close to Rs. 500 plus crores, Rs. 560 crores. So, should that not affect your margins on the programming side, clearly? Also, can you explain this Rs. 1,000 crores increase happening in a year and what has been the driving factor and outlook over there? I was assuming this inventory level to be after three years, but it has reached that level already. Is there a possible trajectory downwards from here of inventory?

Punit Goenka: Bijal, you want to take it?

Bijal Shah: Starting with amortization thing first - the entire amount of inventory is not movies. There are other parts of inventory, on account of our GEC content, content under production, movies under production. As far as the increase in inventory is concerned that is largely due to acquisition of movie rights and it will lead to increase in amortization of movie rights. But you are just looking at the cost side, you need to look at the revenue side also. So, the first point is that we are exploiting these movies over many more number of channels. Number two, we are actually increasing our movie buying in regional markets also. So that is where the additional monetization is happening and in due course of time, you will actually see that we might be launching movie channels in some of these markets. So, if you take into account that revenue also, this amortization expense is very well planned and when we talk about our 30% margin and when we talk about content cost will remain in the similar range, we have actually taken into account this increase in amortization.

Vikas Mantri: From an absolute basis, will it still continue to increase on the same trend or should we see that since we have spent high amount now, maybe slow down over the next two years?

Bijal Shah: If you look at our content cost, there are 3-4 buckets. So, one is original content, and we produce almost 500 hours there every week. That itself is a very large chunk. Then there is movie amortization, then there is syndication of content. So, if you look at movie amortization, yes, that cost will actually grow disproportionately but still in the overall scheme of things the increasing cost would be quite manageable.

Vikas Mantri: I am asking the balance sheet inventory number.

Bijal Shah: The balance sheet inventory number will still see some increase in inventory because there are still some deals which are under progress. But I think in the next one year, I in mean FY19, we would have been done with most of our movie buying. Most of the repository that we need to launch regional movie channels and also for digital offering, the kind of plans that we have, we would have probably acquired most of what we need. So, I think beyond that you should not see inventory going up. Also, we have some rights which come into play in future. So again, our need to buy more movies in future will go down significantly.

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

Sanjay Chawla: I have got two questions. First question - what is the movie slate in terms of production and release for FY19 across various languages? That is one and second question is what are your thoughts on the Telco tie-ups in terms of pushing ZEE5, something which some of the other OTT players have been doing quite aggressively over the last few weeks and months?

Punit Goenka: So, 10 films have been locked in already which will be releasing in financial year 2019. We may be adding one or two films more to that. These are predominantly in the Hindi and Marathi language segment. On the Telco tie-ups front, yes, we are in active dialogue with all telcos looking at partnering with them on ZEE5 just as they have with other OTT players, and as and when we have certain things to disclose, we will come back to you.

Sanjay Chawla: So Punit, just a follow-up on that OTT issue. Does the company have to demonstrate a certain level of activity volume of consumption on the digital side for it to be able to command a certain price from the Telcos and to actually enter negotiations?

Punit Goenka: Absolutely, they will only take content from players that move the consumption of their data significantly and therefore, that is the way to get the value for your content from them.

Sanjay Chawla: So over what timeframe do we see these Telco deals kind of panning out?

Punit Goenka: These are complex technical integrations apart from commercial negotiations. So, I would not like to give you a timeline to put myself under pressure.

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

Alankar Garude: My first question is in terms of viewership on ZEE5. So, if you can help us understand how the viewership is currently divided between content which is already available on television versus the originals?

Punit Goenka: As of now we have put a very small quantum of original content on ZEE5, we have not yet opened up the floodgates. On the consumption, today it is largely driven by our television content as well as the movie library which is there. Our first tentpole property on digital will be launched in the month of June and that is when you will start seeing traction in terms of viewership.

Alankar Garude: Understood sir. Secondly, more from an industry perspective, if I just look at the gap between registered users and paid users for most OTT apps in India, it remains quite wide. So, in your opinion, what can ZEE5 or for that matter any other platforms do to bridge this gap apart from originals, of course?

Punit Goenka: See, all of us are in trial and error mode as we speak. So, does anybody have an exact answer as to what will work and what will not work, it is very difficult to say. Obviously, we know for a fact that sports is an easy hook to get consumers to pay for content. Having said that originals, in my opinion will be a key driver for paid consumption in this country but we have to still see what genres of content will play out.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from Batlivala & Karani Securities. Please go ahead.

Yogesh Kirve: Sir, in terms of the original programming hours in the television business in the existing channels, could you give us some sense what could be the increase from the existing levels? I understand you would like to add new markets so that would be on top of that.

Punit Goenka: So, it varies from channel to channel as we speak. Currently, on Zee TV we are at around 32.5 hours of content and as I had said earlier, we will cap it at 35 for the time being, that's the plan going forward. Similarly, it varies our other channels between 20 hours and even as much as 60 hours on some of the channels.

Yogesh Kirve: Sir, are there any pockets where we could see more material increase in FY 2019 compared to FY 2018?

Punit Goenka: So, in my view, I do not think you will see too much growth in original hours in financial FY19, it will predominantly remain at the levels it is at. Maybe 5% to 10% depending on the need on during the year market-to-market.

Yogesh Kirve: Sure, sir. This was helpful. And secondly, in terms of international business, especially the ad revenues have done well after a while. So, the challenges which were existing in the markets are largely behind and should we expect a steady growth from FY19 onwards?

Punit Goenka: We would like to expect that. We are investing in creating local content for these markets. Our non-Indian language channels have also started seeing traction in some key markets which have led to this kind of growth and we do expect that the advertising growth should continue. On the subscription side though, it will remain flattish in dollar terms.

Moderator: Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: My first question actually is just a follow-up from the previous one. So, as I understand ZEE5 is both AVOD and SVOD platform. On the SVOD side of the business, how are you today expecting the market to shape up? I mean, is the B2C side of the business, with direct access to consumers, expected to be a bigger pie over a period of time or is the Telco side of the business, which is sort of B2B, you believe is going to bigger? I am saying in the medium-term, in 4-5 years. What are your thoughts around that essentially?

Punit Goenka: So obviously, the Telcos will be an easier route and a faster route to capture the consumers because we already have relationship built there. If we try to go pure B2C route, that will be a long-drawn and an expensive route to take, and therefore we would like to partner with Telcos, just like we partner with DPOs on the traditional distribution side.

Amit Kumar: But from a focus perspective would your focus be on that side of the business and you still want to grow the B2C side of the business as well? Even if eventually 100% of SVOD model basically comes from that you are fine?

Punit Goenka: No, it does not work that way. Our B2C relationship is based on the content that we create and the B2B to B2C model only works if my content relevant, right? A Telco will agree to partner with me only if there is demand for my content. So, the relationship on both angles have to be equally maintained from our perspective.

Amit Kumar: Sir, then quickly on the subscription revenue side. In all the other markets, except TN, at least Phase-I, Phase-II, Phase-III have been sort of completed and Phase-IV is pending a bit. I would want a little bit of your comment on Phase-IV, also how much time from here do you believe it sort of takes to fully come in. But more importantly, in the Tamil market, till around six months back, our market share was in the 7% to 8% region and it sort of shot up quite significantly, almost doubled to around 14% - 15% and is now fairly significant. So, do you believe that there is some sort of a subscription revenue upside for us also in the market as Arasu digitizes and the market digitizes? Of course, in the rural areas but especially in the urban Tamil side and any sort of either numbers or thoughts that you have around it?

Punit Goenka: So firstly, as I have said in the past, digitization in Phase-IV is pretty much done. Anybody who had the potential to pay for television is already into the fold through the DTH companies. People who did not have, have either moved to Free Dish or to other alternatives that they may have chosen. On the Tamil Nadu side, it is unfortunate that while our shares have grown significantly, that is the only state where digitization is at its lowest currently. It is still 60% analog market, according to the last estimate we had. And therefore, the opportunity will definitely come in the future but is not there today.

Amit Kumar: Okay. What is your sense of what Arasu is doing in that market? The digital subscriber base has not sort of significantly moved up in the last six months?

Punit Goenka: Difficult for me to comment what Arasu is doing in the market but definitely it is still 60% analog.

Amit Kumar: Alright, just a small follow-up on that Phase-IV question. The reason why I specifically asked this is that I think you have filed a complaint against one of the larger cable operators saying that there is a type of analog piracy that they are still doing. That is the reason why I actually asked that question.

Punit Goenka: Can you take it offline?

Amit Kumar: Yes. I can do that. Not a problem.

Moderator: Thank you. Next question is from the line of Rajeev Shah from HSBC. Please go ahead.

Rajeev Shah: Just a couple of questions I have. Firstly, when you go and partner with the Telco, in that case, do you not give away your platform power to Telcos? And then, how do you really build this as the alternate destination for investment in multiple screen era? And secondly, Telcos are also getting into content, like particularly Reliance Industries, with Rs. 1,000 crores with Eros and they are trying to stitch all the properties they have on the content side. So how do you see Amazon Prime and Reliance, which are emerging as big players? Do you think you have provisioned enough with your guidance of 30% - 31% EBITDA margins for the potential contest which we may see in this whole space? Because they are trying to sponsor some other business may be in the next two - three years and for you this is core, so just trying to understand your thoughts on both the issues. Thank you.

Punit Goenka: So firstly, let us talk about the power shift that you talk about. At the end of the day, as I have said, Zee is a content company and if the consumer is available at the end of any pipe, be it Telco pipe, I have to give access to them. And if that means I have to partner with Telcos, so be it. I mean today, when I partner with a DTH company or a cable company, I do not give away the power of my content because it belongs to me. Moving to your second question, I think the fact of the matter is, content is a business where the relationship is directly with the consumer and I do not believe that any one party can control the entire consumer's consumption of content in any kind of environment. So, having said that as long as we make relevant content which resonates with our consumers, we will be relevant in the market and therefore, it does not really matter.

Rajeev Shah: Just a follow-up. So, you think, there may not be any need to invest more than what you have planned currently from a 12-18 months perspective?

Punit Goenka: Well I cannot forecast, but from where I stand today, I think we have made a formidable plan, which if executed well by everyone, we would have achieved our objectives.

Rajeev Shah: And as you said that your entire 60 - 70 originals will not even stack up to 500 hours. But just trying to understand your strategy, while Reliance will take a year, or if Airtel will follow Reliance, which could be two years away, original is one space where there is no player today, in terms of doing volumes. So, why not to take this opportunity to go little more aggressive and become the destination, because Hotstar is more about cricket and when it comes to originals there is hardly anything there today.

Punit Goenka: Let me flip it to you, do you know any other OTT player who is launching 70 shows in one year?

Rajeev Shah: Yes. But I said, it is not adding to 500 hours, so you know…

Punit Goenka: See, what is the optimum quantity, I do not know. Is it 500 hours? Is it 1,000 hours? Is it 5,000 hours? It is a question to which we are discovering the answer and just throwing money at it is not the right strategy in our view and that is not the way Zee operates. So, we will go into the market at our own pace and grow the business as and when the traction happens.

Rajeev Shah: Yes. And one last question, any plans to add any new market or new channels in any market this fiscal?

Punit Goenka: We will be adding Kerala market this fiscal and we are looking at other genres within the existing regional markets.

Moderator: Thank you very much. Next question is from Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Just two quick questions, can you talk about your tax rate expected for FY19 and FY20? Also, can you talk about any update on Free Dish and let us say that increasingly Free Dish was to continue to become weak, can that open an incremental opportunity for us in terms of subscription revenue?

Punit Goenka: Bijal, can you take the first one?

Bijal Shah: Yes, so Rohit on tax rate, it should go back to normalized rate of close to 35% in FY19 and FY20.

Punit Goenka: On the Free Dish side, definitely, if the Free Dish becomes weaker, there will be huge opportunity, not just on subscription side but even on advertising side. If you look at all the advertising growth that has happened on the FTA side, it will eventually come back to the paid channels, which is not the case today.

Rohit Dokania: Okay. So, are you seeing that happen Punit, is this Free Dish incrementally becoming weaker and weaker?

Punit Goenka: Not from where I am sitting today because the policy is still not out. We do not know what shape the policy will take and even if a policy comes out which is very detrimental to the broadcasting industry, I think the long-tail will fall out first, before the main players get start getting impacted.

Moderator: Thank you very much. The next question is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: I have two, first one is just on the subscription revenue. It seems like ARPU growth for some of the Pay TV operators has been somewhat challenged in the recent quarters? How do you see the ARPU of Pay TV operators essentially growing over the next three years to five years from a consumer point of view? And as such, how do you see your own revenues on the subscription side pan out over the next three years to five years period? You mentioned in the previous question about the potential of subscription, if let us say Free Dish were to get more weakened. But you also earlier mentioned a comment that a consumer who has the ability to pay is already on a pay platform. So, do you really think that from a Free Dish standpoint, consumers who are today on that platform could move to let us say a pay subscription platform and as such help in increasing the subscription revenues for the industry, that is the first one. And second on ZEE5 a follow-up question, given the scale of these telecom operators and you have said that you will look to tie-up with them in the near future, do you think that for you in a three-year horizon is it safe to say a larger chunk of your ZEE5 dollars will come from subscription revenues and not add dollars just because the scale of these Telcos are so large today versus some of the other operators. Thank you.

Punit Goenka: So, I will take the second one first. I think, it is still something that we are going to discover. We believe, India as a market will have both AVOD as well as SVOD as consumption patterns emerge. If you look at our strategy, purely on the AVOD side, it is driven largely from a catch-up TV perspective, whereas in the subscription service, original and other premium content sit behind the paywall. So, we do expect a healthy mix of advertising and subscription to co-exist. And yes, a large part of that may come through Telcos because it is an easier access to the consumer from our perspective. We look at Telcos like another DPO in our ecosystem of business and that is how we are looking at the business. The first question on the Free Dish part, I think what I said earlier about anybody who had capability of paying has already taken up the subscription, one also has to keep in mind that we have the data to prove that a large chunk of the Free Dish subscriber keeps shifting between free and pay services purely because they have both the connections. It is a function of whether they want to pay for content in that month, based on certain content that may be available, whether it is sports, movies, or whether it is a show that really resonates with them. So, the two are not in isolation of each other and I think are linked in a certain manner. Having said that, when 30 million consumers are used to entertainment content of the kind of quality that we provide, and if Free Dish was to shut down, a large part of that would definitely migrate to a pay service. Whether they will move to an ARPU level that currently exists in the market? Maybe not, but I am sure the DPOs will come out with skinny packs, as we have seen the international markets, and include that part of the Indian market going forward.

Manish Adukia: Right, that is helpful, Punit. And just another question that I also had was on the outlook for the Pay TV ARPU, ex of Free Dish. So, for example, all the broadcasters including yourself are trying to tie-up with these Telcos, who would offer a lot of content through mobile phones over time. So, do you think that the subscription growth on the Pay TV side or the ARPU growth there could stay challenged for the next few years, and as such on your core subscription revenue side there could be some pressure once the whole digitization benefit is behind us?

Punit Goenka: I don’t think the two are linked. I think they are independent of each other because we are talking about two distinctly different services. On the traditional form of distribution of our linear content, we cater to a household and therefore, that is a different way of charging for our content. Whereas on the alternate device, it is largely individual-driven consumption, so one cannot be compared with the other. I think, the DPOs in the traditional form are going through their own set of issues as to why they are not able to drive ARPUs up. Undercutting themselves is one of the mains reasons that they are not seeing the ARPUs move up. If you look on the Telco side, while they claim to give content away for free, they do charge for bandwidth and if you look at most of the bandwidth consumption does come on the back of video consumption.

Moderator: Thank you. Next question is from the line of Kratika Rastogi from ACK Capital. Please go ahead.

Kratika Rastogi: Dr. Subhash Chandra Show is really very motivating. So, I would like to ask one question, on an industry level, I would like to know the ad revenue trend as to how much is coming from TV, digital, or print?

Bijal Shah: Around 40% is from television, then we would have print at around 35% and around 15% is digital and rest is radio, out of home and others.

Moderator: Thank you very much. As we there are no further questions, I now hand the conference over to the management for closing comments. Over to you.

Bijal Shah: Yes, Thank you very much. Thanks, everyone for your interest in Zee Entertainment. If you have any follow-up question, you can reach out to Investor Relations team. Thank you very much.

Moderator: Thank you very much members of management. Ladies and Gentlemen, on behalf of Zee Entertainment Enterprises Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.