Zee Entertainment Enterprises Limited

1QFY20 Earnings Conference Call - July 23, 2019

Edited Transcript

MANAGEMENT:

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Mr. Rohit Gupta – Chief Financial Officer

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the ZEE Entertainment Enterprises Limited Q1FY2020 Earnings 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. Should you need assistance during the conference, 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, Rayomand. Hello, everyone and Welcome to ZEE Entertainment's Earnings Call to discuss Company's performance in Q1FY2020. Joining us today on this call is Mr. Punit Goenka – Managing Director and CEO of ZEEL, Mr. Rohit Gupta – Chief Finance Officer, along with other senior management of the company. We will start the call with a brief statement from Mr. Goenka on the first quarter performance subsequently we will open the floor for questions.

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

Thank you, and over to you, Mr. Goenka Punit 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 first quarter of fiscal 2020. We have delivered another quarter of strong performance despite the operational challenges faced by the industry due to the implementation of TRAI tariff order.

We have witnessed a strong uptake of our channels across markets which is reflected in the 47% growth of our domestic subscription revenues. Over the years, we have consistently increased our viewership across markets, especially in the south. In some of these markets, our channels were available for free while in others our revenues did not match our viewership share. The implementation of the new tariff order has allowed us to price our channels in line with their popularity, thereby leading to a sharp improvement in monetization. Additionally, uniformity in pricing across platforms and increased transparency have led to a step jump in this quarter's subscription revenue growth. We expect our domestic subscription revenue for the current fiscal to grow in mid-twenties.

On the advertising front, growth was impacted primarily by the decision to move our two key channels out of the FTA portfolio. The full impact of the drop in the revenue of these channels was felt during the quarter which significantly impacted the ad growth. Additionally, as the implementation of the tariff order was underway during the quarter, the reach and viewership of all the pay entertainment channels was impacted. This resulted in advertisers pulling back on their spends and some of them temporarily diverted a part of it to sporting events that promised a higher reach. The underlying demand for advertising remains strong and as the tariff order settles down, I expect the advertisers to resume spending. The onset of festive season will further boost the advertising spends.

The domestic broadcast business continues to maintain its position as India's #1 entertainment network. Despite the challenges accompanying the transition to the new tariff regime, our broadcast portfolio continues to strengthen its leadership. While the Hindi portfolio has seen some impact on reach and viewership, Zee TV was the second ranked channel during the quarter. Our Hindi movie cluster continues to consolidate its leadership position. In the regional markets, we maintained the #1 position in Marathi, Bengali and Kannada markets. Tamil continues to build its viewership on the back of its strong fiction line-up. The performance of the regional movie portfolio was strong during the quarter.

Now coming to ZEE5. In the month of June, its MAUs and DAUs stood at 76.4 mn and 6.6 mn, respectively. ZEE5 released 18 original show and movies during the quarter and is on track to achieve its commitment of over 72 original shows and movies in FY20. Along with content, its partnerships with telecom operators and players in the digital eco-system are helping build traction on the platform. ZEE5 has also witnessed a strong start in the neighboring APAC countries and has ramped up marketing activities in these markets. It has also soft-launched dubbed content in 5 international languages.

Coming to the financial performance, our overall revenues grew by 13% YoY to Rs20bn. EBITDA for the quarter stood at Rs. 6.6bn and EBITDA margins were at 32.9%.

Our cash and treasury investments at the end of June quarter stood at Rs 17.6 billion. This being the first quarter post the implementation of tariff order, the industry experienced some delays in receiving subscriber reports and billing of subscription revenues. This led to some build-up of subscription receivable towards the end of the quarter. These receivables are now being collected and accordingly, the cash and treasury investments as on today have increased to Rs 21.4 billion.

This brings me to the last and most awaited part of the opening remark – the progress of promoters' stake sale plans. As per my last communication I had said that we had received two non-binding term-sheets. Out of that, we now have one binding offer with us. We are expecting to receive another binding offer over the next few days. Once both the offers are on the table, the promoter family will evaluate and take a decision. I will be talking to you again very soon about the transaction and how that will further strengthen Zee's growth outlook.

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

Moderator: Sure, thank you very much. 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 advertising front. 4% growth not bad, but my question is you are attributing most of the slower growth to FTA. Now, when I see consumption across the different industry Auto, FMCG durables, it is quite weak and FMCG companies, if you see Unilever's ad spend was almost flattish, etc. Second is, non-FTA channels, because of the Tariff Order, there could have been drop in the weaker channels right, because customers clearly prioritize and we all know, consumer ARPU, in most cases, has in fact gone up versus earlier in spite of getting lesser number of channels. So, why you are attributing most of the slower growth to FTA and not to the slowdown in consumption and some of the weaker channels getting knocked off whose viewership would have been impacted.

Punit Goenka: So, obviously, the total amount of revenue lost on account of FTA channels, a significant piece of the growth comes from there. I am not saying that that is the only cause, but if I was to just compare, if FTA had remained as it is in our portfolio, this growth would have been more towards the 10% range. Therefore, the attribution is high.

Abneesh Roy: Okay. So, around 5% - 6% impact just from this?

Punit Goenka: That is correct.

Abneesh Roy: But Punit, in the context of the current slowdown which India is seeing, liquidity pressure and slowdown in consumption, this FTA strategy, in hindsight, would you still term it as a right strategy because it is happening at the wrong time, right?

Punit Goenka: No, FTA strategy is absolutely the right strategy what we have undertaken because the impact that we are seeing on the growth on subscription revenue more than makes up for that loss. And as you will agree Abneesh, the advertising revenue is cyclical in nature whereas subscription revenue is far more sticky. And therefore, we have made that conscious decision rightly. The way it has happened, the timing of it may not be the best for us to have recovered part of the growth from the pay bouquet, but that is part of life. So, I am pretty confident it should come back.

Abneesh Roy: And when you say mid 20% kind of growth in domestic subscription, is that large part because of the Tariff Order? Or is it because of the FTA turning essentially pay?

Punit Goenka: No, it is the Tariff Order, plus we are expecting certain migration from the Free-To-Air channels on to the pay, subscribers moving from Free-To-Air to pay bouquet.

Abneesh Roy: Okay. So, both would be kind of reasonably contributing to that.

Punit Goenka: I will repeat again, Abneesh, largely because of Tariff Order and partly because of subscribers moving from Free-To-Air to pay bouquets.

Abneesh Roy: Sure. And my second and last question is on the OTT mobile-only option, which I think you and some of the other players are launching. So, my question here is, already if you see, for you the annual subscription plan on OTT was quite affordable, Rs. 1,000 and below, and then you had cashback and all that. Now with mobile-only, the ARPU will go down further. So, when you had initial plans, for example, that was a longer-term, OTT can be 30% - 35% of revenue. Is that coming at risk? Because even for the Netflix we see very few paid subscribers, mostly it is free because of the deals, etc. So, are you disappointed with the paying power of the Indian consumer for the OTT?

Punit Goenka: Abneesh, unfortunately, not everything I say gets reported. The mobile-only package does not mean that it is only a pricing reduction, it also means a large part of the content will not be available on the mobile handset. Therefore, we are just creating more packages and bundles for people to choose from. And the people who are not coming to the 999 bouquet, we are creating just another option for them to come and sample using some content, maybe not all of it. But obviously, our strategy will be to keep pushing them towards the full bouquet of content, just like we are doing on our broadcast side as well.

Abneesh Roy: Bullishness of Indian OTT remains, in terms of pay subscription revenues, continues to remain strong, right as earlier?

Punit Goenka: I am bullish on our ability to monetize ZEE5. I cannot talk about Indian OTT space.

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

Kunal Vohra: First question. Was there any impact of IndAS-116 on the EBITDA, depreciation interest, anything meaningful to highlight there?

Punit Goenka: Rohit?

Rohit Gupta: Hi. So, yes, the company adopted in IndAS-116 this quarter, and there is a marginal impact which is there. So, in accordance with that we have also changed the accounting treatment for all our rentals and leases in question. And the overall impact is roughly about 140 million on our EBITDA.

Kunal Vohra: On EBITDA, sure. And is it getting offset at depreciation, interest…?

Punit Goenka: As far as bottom-line is concerned, there is no change. Whatever gain you see in the EBITDA is getting offset in depreciation and interest.

Kunal Vohra: Sure. Second one, can you share your margin outlook for FY2020? You had a strong start, should we expect current levels to be maintained?

Punit Goenka: 30%+ is what we are still guiding for.

Kunal Vohra: Sure. And finally, can you share the number of paying OTT customers, possible to give any further information on monetization of OTT?

Punit Goenka: Not as of now. Maybe in the future we will share with you but as of now, what I have shared is what we can.

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

Kapil Singh: I want to check, what would be your growth outlook for both ad and subscription for full year?

Punit Goenka: As I said, for the domestic subscription market, growth should be in the mid-twenties. Advertising, it is difficult to predict. The next quarter is still looking soft, but I am quite hopeful that second-half will pick-up on the back of festive season. But be rest assured, whatever the industry grows at, we will beat it.

Kapil Singh: Okay. And I am saying that there is some loss of revenues due to FTA. So, despite that, you are saying you should be able to beat industry growth for the full year?

Punit Goenka: Yes, absolutely.

Kapil Singh: Okay. And secondly, I wanted to check on the promoters' stake sales plan, the offers that you have received, these are from strategic investors or financial investors?

Punit Goenka: I am not at liberty to say. As I said, one was a strategic and one was a financial. Let us leave it at that. We are too close to the deal. Right now, I do not want to share more details.

Kapil Singh: Right. We will look forward to that. And on ZEE5, just one question. Is there any indicative revenue contribution or the kind of, on both the ad and subscription growth? Is there any meaningful impact over there during the quarter? And how much is the margin loss right now because of the investments you are making?

Punit Goenka: Our margins guidance is factoring in the losses on account of ZEE5, or any other investment that we may have. The numbers on revenue are not significant enough for them to make a significant impact on the top-line, but it is in accordance with our plan and targets.

Kapil Singh: Okay. I mean, historically, you said that it is 400 bps to 500 bps margin loss due to investment in ZEE5. Is it in the same range or it has come down? That is what I was looking for.

Punit Goenka: This year will be the peak investment in ZEE5. I am not guiding for any specific number for ZEE5.

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

Rajiv Sharma: Just a couple of questions from my side. Punit, how do you look at the free cash flow generation this year? Given that last two years it has been working capital intensive? So, how should one look given that you just mentioned that this will be peak investment year for ZEE5? Second is, how do you look at Netflix coming with mobile-only plans? I understand, you are also going on that same trajectory. But could it change the industry, any long-term shifts you see with Netflix doing that? And is there any lumpiness in the subscription revenue numbers this quarter because if you have grown at 35% - 40% in this quarter then why are we not guiding for a 30% growth? Why we believe this will be mid-25?

Punit Goenka: So, there is an assumption based on our bouquet rates etc. that will be uptaken. Today, the revenue that you look at is on the basis of the composition of bouquet versus a-la-carte. If tomorrow, some of my a-la-carte channels were to be dropped and bouquets were to be replacing them, definitely my yields will come down, right? So, if you look at the Tariff Order, the DPOs uptake of our bouquet versus a-la-carte is differentiated. As you will appreciate, we still do not have deals with some of the DPOs. The moment we enter those deals, our yields, in terms of drop from a-la-carte to bouquets will happen and therefore, we are guiding for a 25% kind of growth number, unlike what you are seeing in quarter one. On your first question on free cash flows, definitely, this year also will not be very high on free cash flow generation. But next year onwards, you will see a lot more cash conversion from our bottom-line to cash. Definitely, this year will improve, and it will not be as bad as the last two years, but next year onward you will see actual ramp-up in free cash flows.

Rajiv Sharma: And Netflix?

Punit Goenka: Too early to say right now for me, to comment as to how that mobile-only will impact, because at the end, that is just a pricing strategy that they have done. It does not really tell me too much about the content strategy. And therefore, as you will appreciate, any OTT platform or content-driven business, the basic need is content. Until that does not change, life would not change significantly.

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

Jay Doshi: Just one question. How is the accounting now done for domestic subscription revenues? And what would be the movement in your commission costs or carriage costs, if there is any such item in the operating expense item, given that, the way those contracts are structured is very different now, I believe?

Punit Goenka: Bijal, go ahead.

Bijal Shah: Jai, this is the net subscription revenue which has been recorded. So, I mean, as you are aware that out of Rs. 100 of MRP there is 20% commission. So, it is after giving all the incentives and all that the net number is recorded. And as a result of the new Tariff Order, we have seen some decline in carriage cost also, which was already at negligible level but that has further declined.

Jay Doshi: So, is it right to say then your base quarter numbers at which we are comparing are actually gross numbers, and your current quarter number is net of carriage expense. So, effectively underlying growth would be even higher than what you reported on domestic subscription in this quarter?

Punit Goenka: Yes, that is correct.

Bijal Shah: Yes, that is right.

Jay Doshi: Okay, that is helpful. Second, sorry, I missed your cash and cash equivalents number as of June quarter-end. And you indicated there is 21.4 billion as of now, but what was it as of June end?

Punit Goenka: 17.6 billion.

Jay Doshi: 17.6 billion. So, just one question, the other income line item is quite volatile that, as we have seen from quarter-to-quarter. So, are there any sort of one-offs or anything in that Rs. 100 crores other income because that looks very high based on your cash and cash equivalents balance?

Rohit Gupta: Yes, I mean, so see, this other income normally comprises the rental income that we get and there is miscellaneous income and some gain on sale of investments, and so on. And this year, there is some interest income also which has come in and some tax refund, etc. So, overall this is the composition of our other income?

Jay Doshi: Would it be possible to call out any one-off component in it or should I take it offline?

Rohit Gupta: So, around Rs. 600 million is the interest on income tax refund for the quarter.

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

Alankar Garude: Firstly, you have mentioned in the past that you would prefer to retain management control post the stake sale. So, would you still maintain the same?

Punit Goenka: It is very difficult for me to predict the future. So, let us see. I am waiting for the binding offers to come in. If you ask about my preference, my preference is my preference right, that would not have changed since the last time I told you.

Alankar Garude: Understood. And secondly, on this, can you update us on the status of the sale of other promoter assets, the infra assets?

Punit Goenka: We will take it offline. Let us keep this to Zee Entertainment today.

Alankar Garude: Sure. Okay. So, secondly, we were seeing a sharp improvement in subscription revenues, especially in the southern market. So, specifically, I wanted to understand on South India, so apart from digitization in Tamil Nadu, what are the other key factors which are driving this growth?

Punit Goenka: As I mentioned that they either we were free in certain markets or our pricing was not commensurate with our viewership share. Tariff Order gave us the opportunity to re-price our content. If you remember, the tariff has been frozen since, I think, 2003 or something. And, you know, no price change has been done since then, for any of our channels since they were launched. And therefore, this gave us an opportunity to re-price our content.

Alankar Garude: Understood, but would it be fair to say that Tamil Nadu would be perhaps the biggest contributor within the southern markets?

Punit Goenka: I do not have the numbers offhand, you can take it with Bijal offline.

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

Yogesh Kirve: So, our cash as at the end of the March was about Rs. 2,080 crores and if you compare to cash as of today, so it seems the cash balances have gone up by about Rs. 60 odd crores. So, I mean, you spoke about the investments which will happen during the year, but can you share some quantum of investments, especially in terms of the working capital investments, because it seems like cash profit would be about Rs. 506 crores during the quarter but cash has moved by only Rs. 60-odd crores.

Bijal Shah: It is first quarter right now, I mean, so a bit difficult to give you an exact amount, but total working capital investment in FY2020 will be in the range of Rs. 500-700 crores, that is the kind of increase we will see in total in working capital in full year FY20. It could be closer to the lower-end of the range but we just want to keep some buffer for ourselves right now.

Yogesh Kirve: And secondly, regarding the operating cost, you have seen increase of about 17% in the first quarter. So, as I understand that largely comprises of the content cost. So, is the increase in the first quarter is reflective of the kind of a number we should expect for the full year basis?

Bijal Shah: It is a bit difficult to give guidance on a line-by-line basis as far as expenditures are concerned, but our 30% EBITDA margin guidance takes into account overall cost increase which we are expecting. The programming cost, I can just qualitatively say, will continue to see increase because as you are aware the ramp-up of ZEE5 is happening at a very sharp pace, and that cost will continue to hit. And as Punit mentioned, this will be the year of peak investment. So, the costs will continue to go up, but still, 30% margin we will achieve quite comfortably.

Yogesh Kirve: Right, thanks. Finally, in terms of our DAU to MAU ratio, which is about 8% or 9%, so could you comment on, are you happy with this sort of conversion number and how does this number stack up against the competition?

Punit Goenka: No, we are absolutely not happy with the number. The industry standard is 25% range. And given that, we are just about a year and a quarter old in this business, we expect to be in line with the industry over the next maybe six quarters or so.

Yogesh Kirve: 25%, is this a benchmark for the video OTTs or any apps in general?

Punit Goenka: Video, I only talk about video.

Moderator: Thank you. The next question is from the line of Sanket Maheti from GeeCee Holdings. Please go ahead.

Sanket Maheti: Sir, I wanted to know the gross debt number by end of the quarter and the exact free cash, not the investment number at the end of the quarter?

Punit Goenka: While we are taking that out, do you have any other questions?

Sanket Mahiti: Sir, other questions is, what were the receivables at the end of the quarter? And how much out of that will be from the related parties?

Rohit Gupta: So, when you talk about debt, the only debt we have in our balance sheet is the redeemable preference shares. So, as of March'19, the figure was 7,409 mn and it has come down a bit by this June quarter. So, slight decrease in that. So, about 700 Crore is our gross debt number, that is the only debt we have in our balance sheet.

Sanket Mahiti: What were the only free cash or the cash in hand, not the investment part that number?

Punit Goenka: Sorry, I think we have just a small correction, the entire gross debt for the company is 11 billion.

Rohit Gupta: So, there is some in the current liability, which is redeemable in the next 12 months which forms part of the current liabilities. So, overall gross debt is 11 billion.

Sanket Mahiti: That is same as what it was by end of the year. That was, again 11 billion.

Punit Goenka: Yes, that is correct.

Sanket Mahiti: Yes, so it is okay. And sir, for the free cash, the cash in hand, without investments.

Bijal Shah: So, as we talked about the cash and treasury investment is around 21 billion at this point in time.

Sanket Mahiti: Yes. But that will include the investments also or it is only the free cash?

Bijal Shah: I do not have that break-up right away with me, you can take it offline.

Sanket Mahiti: And sir, the total debtors as an actual amount and how much is from the related party?

Rohit Gupta: 22,676 million.

Sanket Mahiti: And out of that the related party will be?

Bijal Shah: So, that data we do not have available right now, but nothing much has changed on the same since release of our Annual Report. What related party debtors were, it would have come down slightly from there, but exact number I would not be able to give you immediately.

Moderator: Thank you. The next question is from the line of Karan Toaurani from Elara Capital. Please go ahead.

Karan Toaurani: My first question was regarding the subscription revenue. Can you point out any kind of positive impact on this because of ZEE5?

Punit Goenka: No, the number is quite small on ZEE5 as of now for it to have a significant impact on our 47% growth number.

Karan Taurani: Okay. And any more partnerships or deals in pipeline for ZEE5 or is it all the telcos are now already on board?

Punit Goenka: No, we still have one of the large telco deals to happen. And also, in another telco the full integration is yet to happen. So, I would say of the three telcos, one and a half are done and one and a half are yet to be done.

Karan Taurani: And where do you see that happening?

Punit Goenka: I have stopped giving forecast on things that I cannot control.

Karan Taurani: Okay. Just one last thing, on the subscription piece, so what really drastically change from last quarter to this quarter from a 4% to a 46% kind of a growth? Was it the strategy with the MSOs? Was it your channels, the genres on which you are focusing on? I mean, what exactly happened for the subscription growth?

Punit Goenka: Yes, Bijal, go ahead.

Bijal Shah: So, you are talking about subscription growth acceleration. See, last quarter itself we have told you that there was a disruption on account of implementation of tariff order and that had actually negatively impacted growth. So, you are comparing a base which was negatively impacted. And on top of that, what has happened in 1Q is that a good part of tariff order stabilization has happened, though it is not fully settled, and we have seen an improvement in our monetization of our viewership. So, as Punit mentioned, despite having built significant viewership over last several years, our channels were really not priced in line with their popularity. Under old Tariff Order it would have been a long journey but the new Tariff Order gave us a chance to reset this pricing. So, that has allowed us to significantly improve our monetization. And on top of this, in this Tariff Order, discrimination between the platforms is not possible, which has also led to an improvement in subscription revenue growth. So, this is much more on expected lines. In fact, for the last 2-2.5 years, we have been guiding that Tariff Order will allow us to properly monetize the viewership which we have, and we are seeing that evolving the way we had envisaged.

Punit Goenka: Just to give you one example, I think somebody else also asked me on Tamil Nadu. So, in Tamil Nadu our channel was priced at zero before the Tariff Order. But during the Tariff Order we got the opportunity to revise the pricing to Rs. 10. So, that is how our strategy on pricing and not giving discounts has worked and that strategy has paid off.

Karan Toaurani: So, basically, what I am guessing is that the share from the end of the distributor to the broadcasters basically improved, is that correct to assume?

Punit Goenka: I think share from the last mile has improved for the entire value chain. I do not think it is just share from the DPOs. ARPU improvement that has happened in the market overall also has benefitted.

Karan Toaurani: And lastly, in terms of your dealings or your partnerships with MSOs, we have been seeing some kind of resistance in the last quarter as well. Something that happened was that some of the MSOs were not kind of pushing our channels and we were relying more in terms of the DTH revenue. So, is it that again you are like heavily depending on MSOs or DTH or is it more of a balanced approach right now?

Punit Goenka: No, it is pretty much balanced approach right now. The market is pretty evenly split, like 45-55 in favor of MSOs today. And while we do not have deals with some MSOs, our deals with all DTH operators are in place. And at the end, now we are looking at consumers, we are not focusing on DPOs alone.

Karan Toaurani: Okay, so it is more of a pull demand which is coming from the consumers and which is driving growth basically?

Punit Goenka: Exactly.

Moderator: Thank you. The next question is from the line of Adi Desai from York Capital. Please go ahead.

Adi Desai: On the strategic deal side, are you expect the same in terms of news on July 31st? So, that was one question. The second one, the deal itself, the binding term sheet as you have talked about it, is that from the financial or the strategic investor? Thirdly on the results, I just wanted a bit more color on the financial income and the mark-to-market profits we got this quarter, where they came from?

Punit Goenka: So, firstly, yes, it is a matter of days before we make the announcement on the stake sale. Whether it is financial or strategic, I am not at liberty to say right now, you will hear from us in a few days' time and it will be pretty clear which way we go.

Bijal Shah: Sorry, I think you were asking me about other income, is it?

Punit Goenka: Yes, that is right. The other income and then the mark-to-market?

Bijal Shah: So, on the other income, as we just said that around Rs. 600 million is interest on income tax refund, which we received during the quarter. And if you remove that, the other income will be in the same trajectory as of the previous quarters. And as far as fair value through profit and loss account is concerned, see the redeemable preference shares which we have are listed on stock exchanges. And as per the accounting standards, whatever is the change in the value of these redeemable preference shares flows through P&L in the fair value through profit and loss account line item. So, this is the change in value of the preference share which is listed on stock exchanges and that is primarily the fair value adjustment for the quarter, and for the earlier quarters also.

Moderator: Thank you. The next question is from the line of Romal Oza from RMO Investment. Please go ahead.

Romal Oza: I am just wondering, will Zee Media be part of any stake sale process since there is a lot of value unlocking possibilities out there?

Punit Goenka: No, Zee Media cannot be part of any stake sale process because of the FDI norms that exist in that sector.

Romal Oza: That is 49%, right?

Punit Goenka: Correct, that is right.

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

Sanjay Chawla: Hi, this is Sanjay Chawla here. Punit, just wanted to get your sense on what was the total growth rate in TV ad spends in the industry, overall in 1Q? Did we see a decline at the industry level, what would be your sense? And what is your outlook for the full year and for the industry?

Punit Goenka: So, if I was to remove sports, the industry has declined almost 6%.

Sanjay Chawla: 6% drop ex-sports?

Punit Goenka: Ex-sports.

Sanjay Chawla: Okay. And what would be your outlook on full-year basis? Do you see growth coming back closer to double-digit on a full-year basis?

Punit Goenka: I think it will be high single-digit to very low double-digit.

Sanjay Chawla: Okay. And that is inclusive of sports?

Punit Goenka: Yes, including sports.

Sanjay Chawla: Okay. And I missed the earlier part of your commentary, in the domestic subscription revenues, was there any catch-up element also in the sense what was not collected or not provided for in the previous quarter and came up in this quarter?

Punit Goenka: Very small number is there, it is about Rs. 15-16 crores.

Sanjay Chawla: A question also on the domestic subscription like-for-like basis, how does you Pay-TV ARPU that you realize from DTH compared with that of what you collect from cable operators. What was the gap before the Tariff Order and what is it now?

Punit Goenka: See, it is not a straightforward calculation, Sanjay. As I was saying earlier, every DPO is selecting either multiple channels or multiple bouquets from my stable and therefore, you cannot compare that X was the yield earlier from DTH and now whatever it may be. So, it has actually become far more complicated in terms of how our billing cycles have changed. So, while the cable MSO ARPU's are improving significantly but so are the DTH also.

Sanjay Chawla: So, but in terms of the gap, you know, because historically we have always heard, for more than 10 years, that cable tends to generate lower ARPUs for you on a per-customer basis because of the lumpsum structure and those kind of things, and now these things have changed post-NTO. So, has the gap closed and where do you see medium-to long-term the gap could be?

Punit Goenka: So, apples-to-apples, there cannot be any differentiation based on suppose somebody has picked my Rs. 39 bouquet or Hindi bouquet, two operators who have picked that bouquet will get the same pricing, whether it is DTH on cable, it does not matter. But if a cable company chooses only Zee TV out of that, they are paying 19 and not 39. So, you understand, it is not, apples-to-apples. So, everything pricing wise is apples-to-apples if a DTH company chooses X and the same X is chosen by MSO is the same pricing.

Sanjay Chawla: Of course, it depends on the selection by DPO and the customers.

Punit Goenka: Exactly. So, if you take some of the DPOs who have not done a deal with us or have not picked up our bouquets, operating only on à-la-carte with us, their pricing will still be lower than that of DTH.

Sanjay Chawla: And we have seen a double-digit decline in the international subscription revenues. What could you tell us about your outlook on a medium-to long-term trend here, almost 9%-9.5% decline in international subscription.

Punit Goenka: It is on account of the channels being displaced from a couple of platforms in the MENA region.

Sanjay Chawla: So, could it moderate going forward but we still expect a decline overall, right?

Punit Goenka: No, we generally expected a decline in terms of returns in rupee terms, dollar-to-dollar it remains pretty stable or flat. But now with the introduction of ZEE5, it can be like a hockey stick, a little drop to begin with and then we will start seeing growth coming back.

Sanjay Chawla: And lastly, if I could just squeeze in one question on the MAU, Monthly Active Users, we have seen a pretty solid pick-up this quarter after a slightly muted previous quarter in the MAU, what according to you or the fact of that drove the MAU increase in 1Q?

Punit Goenka: Both India as well as overseas. So, a part of the earlier quarter, the number I gave you is only India numbers, now that international has launched that also contributes to the MAUs.

Sanjay Chawla: So, from an India point of view, did we see any significant pickup as well?

Punit Goenka: Yes, we did see an increase in India as well. But it got further strengthened with the international numbers.

Sanjay Chawla: My question is more on more from a distribution and content point of view. If there is anything that contributed, among these factors to the MAU increase?

Punit Goenka: We had our app go live on the KaiOS platform, which helped significant increase.

Moderator: Thank you. The next question is from the line of Sudhir Ranka from AV Advisors. Please go ahead.

Sudhir Ranka: Is there a timeline till when we will be waiting for the second offer or you will be moving ahead with the only offer available right now, is my first question. Second question is with respect to the number, I wanted to know why this finance cost come down considerably from Rs. 114 crores last quarter to Rs. 20 crores this quarter in the consolidated number.

Punit Goenka: On the offer for stake sale, I am expecting the second offer to come in a matter of days. If that offer was not to come in, then of course, we will be going with the binding offer that is already on the table. And I am quite hopeful that the second offer will also come in and therefore, the family would have enough discretion to make a decision.

Rohit Gupta: On the finance cost, like I mentioned earlier, the finance costs primarily includes the dividend that we pay on our redeemable preference shares and a large part of that was paid in the quarter ended 31st March, and a small part is paid in this quarter. Plus, I also explained the treatment of IndAS-116, the impact of that is the certain element of rentals and leases, which were earlier accounted for as rental and leases above the EBITDA line is now accounted for in depreciation and interest. So, there is impact of that.

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