



Extraordinary Together

Zee Entertainment Enterprises Limited

2QFY20 Earnings Call Edited Transcript

October 17, 2019

MANAGEMENT:

Mr. Punit Goenka – Managing Director and CEO

Mr. Rohit Gupta – Chief Financial Officer

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



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Moderator: Ladies and Gentlemen, Good Day and Welcome to Zee Entertainment Enterprises Limited Q2 FY20 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: Thank you, Raymond. First of all, I would like to apologize for couple of delays in starting the call. Sincere apologies from Zee management for the same. Good evening everyone and welcome to Zee Entertainment’s Earnings Call to discuss Company’s performance in Q2 FY20.

Joining us today on this call is Mr. Punit Goenka – Managing Director and CEO of Zee Entertainment, along with Mr. Rohit Gupta – Chief Finance Officer and other senior members of the company.

We will start with a brief statement from Mr. Goenka on the first 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 and thank you for apologizing on our behalf. I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of second quarter of fiscal 2020.

I’m pleased with the performance we have exhibited during the quarter. Our entertainment portfolio continues to grow from strength to strength across all formats and maintains its leading position. Our television network has emerged stronger post the implementation of tariff order on the back of a strong customer connect and brand pull of our channels. ZEE5 continues to gain traction across audience segments in the market driven by its compelling content library and expanding list of partnerships across the digital ecosystem. The strong operating



performance allowed us to deliver industry leading growth in both advertising and subscription despite the weak micro economic environment.

Domestic subscription growth of 27% has reaffirmed the value proposition of our television network that has been built over the years. The impact of tariff order is now largely settled down and has brought increased transparency along with improved monetization. Our domestic advertising revenue growth, though significantly lower than the historical trend, is higher than the industry growth. We have witnessed an improvement in ad spends through the quarter and we believe that the onset of festive season, along with the measures taken by the government will help revive the consumption growth. The domestic broadcast business continues to maintain its position as India's leading entertainment network. During Q2FY20 our television network had an all India viewership share of 18.4%. While we have maintained our viewership share in the Hindi GEC segment, the network continues to strengthen its position in Hindi movies cluster and the regional portfolio.

Our channels have seen strong acceptance across markets under the new tariff regime, especially in the regional markets. Reach of all the pay channels had been impacted during the implementation of tariff order. In the regional markets there has been a strong revival of reach post the disruption in the early days of the NTO and in almost all these markets recovery in reach has been better than the competition.

Zee TV was the #2 channel in the pay Hindi GEC segment and our strong movie library helped further consolidate our #1 position in the pay Hindi movie genre. We maintained the leadership position in Marathi, Bangla and Kannada markets. Zee Keralam continued its impressive start, reaching 8% viewership share in less than a year of launch. We are on track for the launch of new regional channels in line with our annual plans.

Now coming to ZEE5. In the month of September, it recorded a peak daily active user base of 8.9 million. ZEE5 released 23 original shows and movies during the quarter and is well on track to achieve its commitment of producing over 70 original content pieces this fiscal. Our content co-production deal with one of India's leading production houses further consolidates our position as India's biggest producer of original content. Along with content ZEE5's partnership with players in the digital ecosystem are helping build traction on the platform. Tapping one of the fastest growing smart TV ecosystems across 45+ brands and comprehensive delivery across all operating systems give ZEE5 an added advantage in distribution. ZEE5 also



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launched ad suite products that will allow it to offer wide-ranging and customized advertising solutions to brands.

Coming to the financial performance. Our overall revenue grew by 7.4% year-on-year to Rs. 21 billion. EBITDA for the quarter stood at Rs. 6.9 billion and the EBITDA margins were at 32.7%. Our cash and treasury investments at the end of September quarter stood at Rs. 14.8 billion.

Finally, I would like to address the question you might have regarding the note #5 to the financial statement. Our fixed deposit worth Rs. 2 billion was wrongfully and unilaterally adjusted by a bank against the dues of certain related parties. The said, the related parties have already reimbursed the same amount to the company and accordingly there is no financial loss to the company. We are seeking legal advice on the matter to take appropriate action or resolve the matter amicably with the institution.

With his opening comments I would like to address any questions you may have.

Moderator: Thank you very much, sir. We will now begin with the Question-and-Answer Session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on advertising - 2% growth, how does it compare with the TV industry ad growth? And second, digital ads have been taking share from rest of the segments over many years. New development is that multiplexes are seeing very good growth. We saw the number of multiplexes see 16% ad growth this quarter. So, whenever slowdown happens, we always see that escapism due to which footfalls increase. So, is this an additional worry, multiplexes, is this an additional worry for broadcasters apart from the digital in the current context?

Punit Goenka: For the first question the overall industry in our estimate for television saw low single digit de-growth. I think the number is around -4% and we have still delivered 2% growth, irrespective of that. Also keep in mind that this also has the impact of the FTA channels that were switched off on 1st of March this year. Despite all that, we have still managed to grow by 2%. On the second question on multiplexes having an impact on the broadcasting business, I think it's too early to tell. If you look at the total number of cinema goers, I don't have the total numbers, but if I take the biggest blockbuster movie it has been seen by 30 million people, maximum. So, from that



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perspective, our medium is far more mass focused than multiplexes and at the price points at what television is available in the country I don't think multiplexes will be able to match that kind of a mass impetus.

Abneesh Roy: My second question is on the fixed deposit which you proactively mentioned. Anymore such issue can happen, so are you doing anything proactively in terms of ring fencing any of the other FD because there is lot of cash of the company so if you could clarify on that?

Punit Goenka: Yes we have taken all the necessary measures to ring fence all our other deposits and nothing of that sort is likely to happen.

Abneesh Roy: And one follow up on the ICDs part, if you could clarify which entity, when was this money given and any more such issues can happen on the related party ICDs?

Punit Goenka: This issue happened 3 years ago. This was an ICD that we had issued to a company named Oscar. We have been trying to recover our money for quite some time from them. The promoter group, Essel Group, had stepped in last year to help us recover this money through their offices. But as a prudent governance measure, we have taken a choice to provide for it. We still expect the recovery to happen for this money, but we still wanted to go ahead and provide for it in our books. There are no other such treasury operations that are there.

Abneesh Roy: Last question again on the business. So recently a-la-carte of pricing has been cut by most of the players. So, one is why it's happening now, could the bouquet prices also come down and what percentage of the revenue is currently a-la-carte. So, do you see à-la-carte mix increasing because of this?

Punit Goenka: Firstly, the bouquet pricing has not been changed. It is only the à-la-carte pricing that we have done as a festive offer. It is not a change in perpetuity. We have the option of, and if you read the tariff order, any promotional activity cannot be valid for more than three months, as per the tariff order itself. So, I expect this to be a short-term matter. The total number of a-la-carte channel penetration in our country for us is less than 10%. So, I don't see a major impact on our revenues. It should help us increase reach, if at all, and therefore higher advertising revenue.

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



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Kunal Vora: Couple of questions on the balance sheet. So trade receivables are up from 18 billion to 24 billion. What's the status of relative party receivables and what's driving this significant increase? I think you had 5 billion receivables from Dish TV and Siti Cable at the end of fiscal '19, any movement in that number? That's first and second other financial assets are up from 1000 crores to 1400 crores. You had given some advances, what's the status of that now?

Punit Goenka: I will just request Rohit to answer that.

Rohit Gupta: So, yes the debtors have gone up in this quarter and it is on account of certain delayed payments from our MSOs including Dish and Siti. We have now received a binding and definitive payment plan from them and we expect to bring down this to the normal levels by Q4.

Kunal Vora: Have the increased compared to end of fiscal '19 or they are stable, what's the status?

Rohit Gupta: Can you repeat?

Kunal Vora: The receivables from Dish TV and Siti Cable, are they still increasing, or they are stable?

Rohit Gupta: No, we expect the receivables from Dish and Siti to start coming down. As I said, we have received definitive and binding payment plans from both and as per the payment plan, receivables from both the parties should come down in this quarter itself and definitely in Q4. So, regarding your second question on other financial assets, this is primarily the FD which Punit was talking about. We have reclassified the fixed deposit here, so that is one increase and second is the normal increase of the unbilled revenue on subscription.

Kunal Vora: On the FD, how could the banks attach that? Was there some bank guarantee which Zee had given or how did that happen that banks attached FD of Zee company for....

Punit Goenka: Kunal as I said in my opening statement itself, it is a wrongful and unilateral decision they have taken. There is no guarantee given by Zee to any of the group companies to the bank, so we are taking appropriate legal advice etc. to take action.

Kunal Vora: Lastly on inventory again there is an increase on 38 billion to 43 billion, where do we see it stabilize and when will it start coming down?



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Punit Goenka: Kunal if you recall, in the last meeting we had talked about the advances that were given out towards film acquisition etc. That's what is now getting accrued into inventory partly and partly also for the content that we are procuring or securing for ZEE5. I don't think this will go up significantly higher. But once the new channels that I talked about, the regional channels, also start launching these will start passing through the P&L and they will come down significantly starting next fiscal itself.

Kunal Vora: Do you see it as maxed out or it will go up further before it starts coming down?

Punit Goenka: It's a matter of time before those advances get converted into inventory. Beyond that it's not going to increase and hopefully my channel launches will happen in parallel and therefore you see part of it come down and part of it get converted into inventory.

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

Vivekanand S: Couple of questions on the financial statements. What is the status of repatriation of the Rs. 6 billion odd cash parked in Actinium and Poseidon? Secondly what is the figure of the cash and the treasury investments for the current quarter? And thirdly with respect to the investment point that you made on inventory, in the annual report you had discussed that we had passed the peak investment phase. So, do you mean the investment phase when seen from the P&L or from the balance sheet? I have a couple of questions on the business also. Maybe after I get the answer I will ask.

Punit Goenka: So, as I said the cash in the treasury operations for the company stands at 14.8 billion. For the Actinium-Poseidon, we have seen some movement, only minor movement in reduction in the last quarter and we do expect some reduction to happen this quarter as well, which is Q3. We are working actively with them to redeem it as soon as possible and get it off our books. On the third part, what I meant to say was that whatever investments we were to do have already been done, which is a part of inventory as well as advances. Beyond that we don't expect it to go up further and hopefully in parallel once my regional channels launched I will start passing that also to the P&L. So, we are currently looking at it from a balance sheet point of view and eventually it will all move to the P&L.

Vivekanand S: The cash and treasury investments, this is a gross number, you don't have any liabilities against this, right? This is not a net number.



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- Punit Goenka:** No that's correct. We don't have any liabilities against it.
- Vivekanand S:** Forgive me for asking this but because of the deposit that were adjusted I wanted some color on the 14.8 billion. So if you can clarify where this is parked. Is it all in domestic banks or can you give some color on that?
- Rohit Gupta:** So, there is a number of instruments in which this is comprising of, so this includes CDs, fixed deposits, mutual fund investments and quoted investments and unquoted investments in domestic and outside of India.
- Vivekanand S:** Rohit can you share some more specific color on this?
- Punit Goenka:** Can we take it off-line Vivekanand?
- Vivekanand S:** Okay, so the one question that I had on the business with respect to ZEE5 was, I was reading Tarun's interview recently where you have highlighted that now the company is planning to focus on kids and also launch into new regional languages. So can you give some more color on the audience profile right now? How much of the DAUs and MAUs that you are currently getting is from India? Can you give some sense of the Tier I, II versus Tier III and IV because some of the interviews also talk about you doing very well in Tier II and Tier III markets?
- Punit Goenka:** The number that I gave of 8.9 million DAUs is predominantly India. It will be 95%+ India. I don't have the demographics readily, but I can tell you our primary audiences are still female skewed, and they are younger than the television audiences. So, if television is generally 35+, this will be more in the 18-25-28 bracket. So, the split last when I saw was about 57% skewed to female and 43% to males, which is very similar to what it is on television.
- Moderator:** The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.
- Yogesh Kirve:** This is continuing on the inventory part, so inventory had an increase of about 1200 crores in FY19 and another 450 crores. So, could you give us a breakup of the key components of the inventory increase and why we are seeing the inventory acquisition of so much only now, because in the past most of the television costs get charged off to P&L in that year itself? So, why we are seeing so much acquisition over the last year and a half?



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Punit Goenka: So, Yogesh what happens is that, 2 or 3 buckets—lets treat it like that—so first bucket which is the largest is the film library. There is a time when we only acquired rights for television. We did not acquire other rights that we were needing for running the ZEE5 business. We started acquiring that about 2.5 years ago and therefore a large chunk went towards getting the digital rights for that library. Second bucket is our movie production and our music publishing business. As you know we are now the second largest music publisher in the country and we acquire close to 60-100 movies every year for music publishing. Now that is not charged the way television content gets charged through the P&L. It is charged over a 3 year period. Then lastly, we have content that we are making for ZEE5 and for the television network which is under production or is being sourced from third-parties. So, that is the third bucket and once you start putting it on air or on the ZEE5 platform it sits in inventory, it doesn't pass through the P&L. So, these are the three buckets largely you have to look at. So, ZEE5 is completely new business, the movies production & music is completely new business. Both these have contributed towards this large chunk of growth in the inventory, and because we find both these assets as a very good assets to invest in as a company, we have taken that call and gone ahead and made these investments.

Yogesh Kirve: Is it possible to give an amount sitting in inventory which is content under production or are not being shown on any of the platform so far?

Punit Goenka: It will be a very small number. I don't think it will be more than 7%-8%. Rest will be all towards the films and the other things. We have a policy of films which are amortized over 5 years straight line. So, even once the movie airs it doesn't mean it gets written off completely, but there is enough library of my content which is completely written-off but still it's being aired on which I am earning the revenue. So, it kind of counterbalances itself, and while this one-off blips for new businesses has added to it, over a period of time this will neutralize and things will go back to normal.

Yogesh Kirve: Just a little clarification, you referred to certain 7% of the inventories, so you are referring to 7% of inventories is basically the content under production?

Punit Goenka: That is correct. 7% to 8%, I don't have the exact number right now.

Yogesh Kirve: In terms of the charge to the P&L, considering that the inventory has accumulated over the last about 2-2.5 years, so do we see the rate of charging to P&L may increase and the margins may come off when the charge-offs really start?



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Punit Goenka: Our non-film content is charged 80% in the first 12 months and 10%-10% over the next 2 years. So, that I think is already a very conservative policy that we have. The films on the music side and on the film production side is a 3 year policy. In production we are charging almost 90%+ on theatrical release and the balance over the next 2 years. Music, we are charging 3 years straight line. Sorry, 50% in year 1, 25%-25% year 2 and 3. So, if you look at a large part of our content cost runs through P&L every year. It's only the film rights, for which our minimum purchase rights are for at least 10 years or more. Almost a third of my library I'm sitting on is almost 99 years in rights. So, these assets don't just deteriorate in the first year itself. We make money out of these for multiple years even after charging off to those. I can add that we constantly review our amortization policies internally and with our auditors and with our board and we take prudent calls if necessary.

Yogesh Kirve: And second question I have for Rohit. In the first half we see the cash flow from operation is negative. So, taking all into consideration, regarding the inventory as well as some of the advances, so do we expect definitively that in the second half the cash flow from operations should be positive by a healthy number?

Rohit Gupta: As I said, we are working on liquidation of debtors and we have definitive plan. This will help us in obviously releasing cash. But I do expect the cash flow situation should improve by Q4 and by next year we should have positive free cash flow.

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

Jai Doshi: Your domestic subscription revenue growth is about 36% in first half and you have guided of 25% kind of number for the full-year. So, is there any change in guidance, what should we expect for the full-year?

Punit Goenka: No, no change in guidance yet.

Jai Doshi: Growth in second half will be much lower?

Punit Goenka: On subscription side, because you're comparing to a last mechanism which was a very different mechanism and a lumpy mechanism of collections and billing. That is all that has changed. So, it's not really an apples-to-apples comparison from that perspective.

Jai Doshi: Now you related party receivables was about 500 crores as at March end. What would be that number or what would be it as a percentage of total receivables of 2400 crores, so how much would be related party?



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- Rohit Gupta:** The overdue amount would be in the range of about 250 to 300 crores.
- Jai Doshi:** And what is the usual amount, if you could give me the entire number it would be helpful?
- Rohit Gupta:** The entire number of receivables would be in the range of about 700 crores.
- Jai Doshi:** Then last, as at March end you had given interest-free deposits of 6.9 billion and advances of 2.45 billion. I understand you mentioned that some of that inventory content you have procured, so what is that aggregate number which was 9.35 billion as at March end, what is it now as of date?
- Rohit Gupta:** So, both the deposits and the advances that we have given, so there is movement in that. In the advances that we had given, I think roughly around 75 crores has already moved and in the deposits also there is movement which is there.
- Jai Doshi:** What would be that aggregate number as at September end? If you can give me, is it possible or should I...
- Punit Goenka:** Jai we don't have the exact number right now, can you take it off-line?
- Jai Doshi:** Sure I will take it off-line. And finally, Punit thanks for explaining us the inventory amortization policy across different segments. If I broadly look at the inventory increase, it's about 1600 crores on a YoY basis. And if I look at your base quarter programming cost and current quarter programming cost the increase is 160 crores. So, the 1600 crores inventory increase, my sense is that ballpark minimum there should be a 300-crores increase in the amortization expense of programming costs. So, is there any change in the inventory amortization policy between the base quarter and the current quarter?
- Punit Goenka:** Jai you're not factoring in the fact the inventory that is being accumulated but we have not launched the channels yet and therefore it's not passing through the P&L. it's just sitting in the inventory. So, I had a plan to launch Kannada Movie channel, a Tamil Movie channel, a Bhojpuri Movie channel and a Punjabi channel. Four channels are still not launched which has accumulated a lot of library.
- Jai Doshi:** But for movie amortization 5 year policy still is unchanged, is that right?
- Punit Goenka:** That is correct.



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- Jai Doshi:** Satellite rights 5 years?
- Punit Goenka:** Yes.
- Bijal Shah:** One thing which you are missing Jai, I mean see you are looking at base quarter and this quarter but base quarter had a big movie which was there and that had led to higher cost. This quarter we did not have any major movie. So the comparison might not be as easy as just looking at base quarter and this quarter number. On top of that there is lot of difference in which the programming bouquet itself might be different. So, we might be doing awards, we might be doing events. Now it depends upon where the festivities are, which quarter we want to do. So, just a simple comparison will not give you a full picture.
- Jai Doshi:** In fact, I believe the increase is lower than what it should be given the increase in inventory, but Punit I think did explain that a lot of inventory sitting on balance sheet is for channels that are yet not launched, so you are not charging it to P&L as yet.
- Bijal Shah:** And also there are future rights. So, in my inventory if you look at FY19 balance sheet almost 4 billion rupees of future rights are there, Rs. 4.75 billion. Now these rights have not even started, so there is no amortization with respect to that.
- Jai Doshi:** And just a request, if it is possible maybe in the future quarters or maybe next year, given that inventory and amortization—there will be questions around amortization of inventory—would it be possible to give a breakup for programming cost and movie amortization expense going forward at a later date? Just a suggestion.
- Punit Goenka:** We will consider it.
- Moderator:** The next question is from the line of Arun Kumar from High Yield Fund. Please go ahead.
- Arun Kumar:** You had mentioned 700 crores pertaining to related party out of the total receivables of 2500 crores and also you had given overdue amount of 250 crores relating to related party. Similarly, can you give me the related party breakup in the other financial assets of 1376 crores?
- Rohit Gupta:** Roughly around 200 crores out of the 1300 crores is relating to related parties.



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- Arun Kumar:** Are there any related party transactions in the other assets also which is about 1465 crores?
- Rohit Gupta:** I don't think there is any amount in the other current assets.
- Punit Goenka:** There are no other related party assets in the current assets.
- Arun Kumar:** And in cash and treasury investments the previous participant had asked for the breakup, are you able to get that break-up?
- Rohit Gupta:** Like I said, we will give you the breakup off-line. The cash and treasury this is all in fixed deposits, certificate deposits, mutual funds, NCDs and bank balances and the exact cash is not available with me right now. But we will give it to you off-line.
- Arun Kumar:** It predominantly is in Indian investments, right?
- Rohit Gupta:** Yes it is in Indian investments and we do have overseas investments as well.
- Arun Kumar:** And in the P&L what is causing the fluctuation in that fair value because on a Q-on-Q basis its moved from is 68 crores gain to 8.75 crores loss in the consol P&L.
- Bijal Shah:** This fair value adjustment relates to redeemable preference share which we had issued as bonus to our equity shareholders. As per accounting standards, the value at which this instrument needs to be recorded should be the market value because this preference shares are listed. So, whatever is the fluctuation in the market value of these shares is passing through the P&L as fair value loss or gain every quarter. So, it has got no cash implications. It is just a sometime a notional gain or sometime loss depending upon how the price of this instrument changed over the quarter on BSE and NSE. So, it can be positive, it can be negative. There cannot be any trend on that because the stock market prices can go up and go down and that will be reflected as loss or profit.
- Arun Kumar:** So, this is only on account of preference shares, no other instrument?
- Bijal Shah:** I mean overwhelmingly, there might be some more but more than 95% it is that.
- Moderator:** The next question is from the line of Vivekanand Subaramanian from Ambit Capital. Please go ahead.



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Vivekanand S: Punit can you please give some more color on the advertising environment, this revenue decline for the industry? You have mentioned in the quarterly note that it is looking up now. What is your expectation of industry ad growth for fiscal '20 and what do you think drives the growth optimism that you would outline in the quarterly note?

Punit Goenka: I think firstly, the festive season itself will drive some amount of advertising growth for the industry and therefore for us as well. We are seeing, and I don't mean so much more for the industry than for us, given our network share and consolidated market positioning gives us a far better leverage to negotiate with the advertisers. That's where I said when this industry has seen a degrowth of 4%, we have still managed to deliver a 2% positive, despite the 4% degrowth and despite the shutting off of two very profitable FTA channels that we had switched off. So, from that perspective the industry may get to a flat kind of situation for the rest of the half but we will definitely beat them.

Vivekanand S: As regards to the network share numbers that we see 18.5% now and around 18.7% in 1Q, this is slightly lower than the 19.5 odd number that we saw in 1H FY19. Is that only because of the shutdown of the Free-to-Air channels, can you give any more color on that?

Punit Goenka: Yes, it's largely on account of that. There may be some movement in the other portfolio but that will be miniscule. In fact, the FTA channels contributed for more than 2% of viewership share for the network. So, it was actually prior to that even at 20%+ which is now at 18.5%.

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

Sanjay Chawla: My first question is on this overdue amount you indicated from related parties, 250 to 300 crores now, so what is the provisioning policy with respect to this and should one expect some more exceptional costs to be booked in the coming one or two quarters on account of this?

Punit Goenka: As a policy for related parties we don't provide for this thing, but we have received a definitive plan and the binding plan from them for making these payments over the next two quarters and they are quite confident that they will stick to their commitment and therefore you'll see a significant reduction happening by Q4. So, yes there should not be any impairment on account of this.



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Sanjay Chawla: And second question is on ZEE5, is have you not disclosed MAUs—maybe I have not noticed it yet—for ZEE5 the last month of the quarter?

Punit Goenka: No we have now decided to disclose the daily active users. That's a more sticky metric that we use for trading.

Sanjay Chawla: How do you feel about this daily DAU to MAU ratio? It still seems to be low assuming your MAUs have grown from last quarter's level and this is despite release of lot of the original shows. So, I'm just trying to understand what could be the factor here. Some of your other rivals like Voot and Hotstar, they have much better percentage of DAU versus MAU. So, what could be behind this and how do you, second related question is how do you feel about the pricing? I believe some of the discounts are no longer there on the annual subscription of ZEE5 for the entire content?

Punit Goenka: You are right that the MAU to DAU conversion is still lower than the industry but keep in mind that we are just about a year and a half old and our original content started about only a year ago, not even a year and a half ago. So, we are quite confident that we will continue to grow from here leaps and bounds going forward. From the last quarter the percentage of conversion from MAU to DAU has significantly gone up. I think it's about 60%-70% growth and we are pretty confident that the numbers will keep tracking. On the subscription side, I am very confident that the numbers that we are delivering on the subscribers that we have captured so far is in line with the industry, in fact beating most of the players in the industry. And you're right we have taken the discounts away.

Sanjay Chawla: My question is basically more on broader perspective on pricing whether 499 is really the price point at which one unleashes lot of demand or because there is lot of competition obviously out there for this paid SVOD also. Is there really pricing power out there which would help you command the 999 and may be further increase in the future on annual basis?

Punit Goenka: I'm pretty confident that if we continue to produce good quality content people will pay for it and that testimony to the growth that we have seen not just in ZEE5 but even in the broadcasting business. If you look at the kind of pricing growth we have seen in the broadcast business also is because our content has a pull towards it and therefore we managed to command these high prices. As long as Tarun and his team continue to build on content which the consumer wants, they will pay for it.



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- Sanjay Chawla:** So, we haven't seen any significant pickup in the churn once the pricing got reset to higher level after first year?
- Punit Goenka:** None whatsoever. We have only seen growth. You have to think that is being allowed with auto renewals etc. the numbers will only track higher.
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Just a couple of clarification; one on the à-la-carte pricing which you mentioned and you I appreciate this is more to increase the penetration. Now if I go back to our discussion in South India, we were pretty much there in terms of presence across the base packs while in HSM there were certain issues with select players here and there. Has that situation improved or is this pricing strategy largely addressing that part itself?
- Punit Goenka:** This pricing strategy doesn't really impact the regional markets in a big way because as I said in my opening statement that most of the reach impact that we had seen during the implementation of NTO has come back and people will continue to buy bouquets in the country, I'm very clear on that. À-la-carte will be a very small segment of the audience base that will subscribe to. So, I don't see much impact happening. I see more impact possibly in the Hindi speaking markets where the penetration of our pay channels in the rural markets can increase much better through the à-la-carte pricing strategy.
- Ankur Periwal:** Any percentage you can share in terms of our reach in the HSM market overall or maybe rural versus urban?
- Punit Goenka:** I don't have the number right now but I can tell you we are above 90% of pre-NTO in most of our markets.
- Ankur Periwal:** Secondly on ZEE5, while we have taken away all the longer gestation discounts, the long-term pack discounts on ZEE5. We did earlier mention launching sachet-based pricing. What's our thoughts over there which can probably increase the penetration of ZEE5 as well in the respective regional markets?
- Punit Goenka:** We already have the regional pricing different then the all-you-can-eat à la carte and we are working on lighter packs as we speak which we will roll out in the next couple of quarters.



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- Ankur Periwal:** On the International Distribution any updates there?
- Punit Goenka:** International distribution not much to update. We are focusing on ZEE5 roll-out, we are very aggressively rolling out in the APAC and the MENA region and following which we will go to the UK and the Europe and then finally US at the end.
- Ankur Periwal:** A couple of bookkeeping, the tax rate in this quarter is only 15%, so any specific reasons there and what should be the number one should uptake going?
- Rohit Gupta:** You are probably aware as the Finance Minister has announced reduction in the corporate tax rate. We have therefore computed the tax based on that and we see the adjustment in this quarter. Yes the tax rate has come down from the overall 33%-34% to about 24%-25% now. We will see the benefit in cash flow as well in the next two quarters. So, hopefully in the next two quarters our tax outgo should improve by about anything between 250 to 300 crores.
- Punit Goenka:** Just to be specific to your question because we had provided for higher tax in Q1, that has been returned back.
- Ankur Periwal:** A related question to that and if I got it right, we did mention because of our high investment in content, the OCF in the first half obviously is negative and may be by end of year things will improve. So, for the full year are we expecting OCF to be positive? If you got it right earlier we said FY21 we will see OCF positive.
- Rohit Gupta:** Next year we expect the free cash flow to be positive.
- Ankur Periwal:** OCF will be negative despite lower tax outgo in the second half there?
- Rohit Gupta:** We are working on liquidating our debtors and releasing cash wherever possible. Our endeavor is to have a positive FCF this year itself but definitely next year we have a positive FCF.
- Punit Goenka:** We are not saying that we will be negative. We are working towards ensuring that it's a positive FCF but next year for certain it will be positive.
- Moderator:** Thank the next question is from the line of Dinesh Kulkarni from Mission Holdings. Please go ahead.



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- Dinesh Kulkarni:** My question to you is the operational cost on standalone basis has gone up by 50%. Can you please explain that?
- Punit Goenka:** Operation cost?
- Dinesh Kulkarni:** Yes on the standalone financial statements P&L? It has increased from 540 crores to almost 800 crores.
- Rohit Gupta:** This is primarily on account of investments that we have been making in our ZEE5, in the digital platform. So, standalone includes digital platform and it is on account of that both in terms of programming, transmission and personnel.
- Dinesh Kulkarni:** Can you provide some color on ZEE5 content investments like how would we see the difference in technology and content in investments to go through the next 2-3 years? Do we expect technology investments to come down and will be more focused on content? Can you just provide some bifurcation there?
- Punit Goenka:** There are two parts of technology - one is Capex the other is Opex. So, the Capex is not very high in this business. Most of the investments have already been done. There are marginal investments we are making to improve the tech platform etc., specially whether it is the ad tech suite is concerned, whether it is the user interface of the app etc. So that will not need much investment going forward, it will be incremental. But operating technical cost will continue and only increase because as the consumption increases you pay for more consumption. So, the transmission cost here is nothing but the content delivery network charges that we pay to people who carry our content and deliver it to the consumers. So, that as consumption increases that will continue to keep growing.
- Moderator:** The next question is from the line of Anshu Govind from Origin Capital. Please go ahead.
- Anshu Govind:** My question is regarding the 500 crores odd you need to pay to the preference shareholders in March. So, is that possible without taking any additional bank debt and do you have enough free cash, I mean comfort cash on-shore in India to make the payment?
- Punit Goenka:** It will be paid from our treasury operations or internal accruals. We will not be taking additional fundings from anywhere.



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Rohit Gupta: And that has already structured in when we talked about our cash flow; it's already factored in.

Moderator: The next question is from the line of Sudhir from A-Square Capital. Please go ahead.

Sudhir Ranka: I have a question, we just got to this 200 crores FD which has been broken. Was there any charge created by the company or any of the group entities which bank had then taken into consideration while breaking the FD?

Punit Goenka: As I said Sudhir in my opening remarks itself, it is a wrongful encashment and completely unilateral provision they have taken. We have never encumbered any of either Zee's assets or any of the group's assets against these FDs.

Sudhir Ranka: Was there any document or impression given to the bank that these are charges which are created?

Punit Goenka: Not by the company, so I definitely can't say that something was given.

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

Jai Doshi: A quick bookkeeping question; so peak DAU base of 8.9 million in September, is this the peak DAU achieved on any single day or is it average for the month of September?

Punit Goenka: It's not one single day Jai, it may not be for one day but it's also not 30 days. It will be a significant period during the month. Just to give you some color, our consumption actually is high on weekdays for our soaps etc. For our original content, consumption is high on weekends. So, it kind of plays off from that perspective, so based on when we upload content etc.

Jai Doshi: So, how do you compute it?

Punit Goenka: If you look at our soaps, which is our regular television content that is uploaded immediately after telecast of the televisioned show, and therefore the consumption happens on weekdays. All of our original content is generally launched on a Friday and therefore consumption happens on the weekends.

Jai Doshi: But the 8.9 million number, is that on a particular day or is it average of a few days?

Punit Goenka: It will be for significant part of the month's average.



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Jai Doshi: As per the annual report corporate guarantees of about 900+ crores were against for some loans of Siti Cable Networks. Is there any change there or is there any other change in corporate guarantees per se?

Punit Goenka: It is, as per my recollection it is down below 300 crores now.

Jai Doshi: Corporate guarantee number, overall number is down to 300 crores?

Punit Goenka: Yes, overall is less than 300 crores. Actually, it is not even 300 Jai because these guarantees are in form of DSRA guarantees and not full loan guarantee therefore our exposure is limited to just a quarter, but if you want to take the whole loan it is less than 300 crores.

Jai Doshi: Any incremental update you would want to give on the debt resolution plan or any progress on infra assets or any updates you may have?

Punit Goenka: I was wondering Jai that nobody has asked me this question and we are almost at the end of the call. Thank you for asking this. Apart from my call that I did last to last Saturday, as I stated we are working on solutions that we are currently evaluating are aimed at removing the so-called overhang on the Zee stock in a holistic and timely manner. We are working with several parties on the ZEEL stock deal. There was a certain disclosure that happened after that from VTB. We are in constant dialogue with VTB. We believe they are a responsible institution and they will not take any action that will hurt their interests, our interests or other shareholders interests. Apart from that, the latest development has also been that for our education vertical, Zee Learn, which is the largest education company in India, we have received inward interest from strategic and financial investors which we are evaluating actively.

Moderator: The next question is from the line of Jun Leong from New Silk Road. Please go ahead.

Jun Leong: I just have three very quick questions - one is, is there any plan on the reinvestment of tax savings from the corporate tax cut? If you could give some color on that, that will be great. Second is on the domestic ad revenue, are you seeing anything in the rate cut, any sort of pricing pressure, anything on that and lastly the time spent a day on ZEE5. In the release you put 120 minutes, is that comparable to the 33 minutes that you last reported?

Bijal Shah: As far as corporate tax rate cut is concerned, we already have been investing what was needed in both the broadcast and digital businesses. So immediately there are



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no plans and we continue to maintain EBITDA margin guidance. Most of the tax cut will accrue in profit line and it will add to our EPS for the year.

Punit Goenka: Coming to the advertising part, while the industry situation is still not as healthy as one would expect but I am hopeful with the festive season around the corner, things should be better than the first half. Only time will tell but it should improve over the first half at least. That's what my understanding, and irrespective of whatever happens to the industry, we will always endeavor to beat the industry number to the positive side.

Bijal Shah: Can you please repeat third question?

Jun Leong: If the time spent per day disclosure 120 minutes, is that the same as last quarter's 33 minutes?

Punit Goenka: The 33 minutes number, it was computed when we used to give you the Monthly Active Users so that number is no longer relevant for us to track. The 120 minutes consumption is based the 8.9 million Daily Active Users and what their consumption is. This is the real relevant part of our business that we are focusing on and will continue to drive that. This is what drives our advertising as well as the subscription revenue in this business.

Jun Leong: I just want a quick follow-up on the tax reinvestment. You mentioned no immediate plan. Should we take it that the cash flow just sort of gear up on the balance sheet?

Punit Goenka: Yes.

Moderator: Thank you very much. We will take that as the last question. On behalf of Zee Entertainment Enterprises Limited that concludes the conference. Thank you for joining us. You may now disconnect your lines.