Zee Entertainment Enterprises Limited

Q1FY22 Earnings Conference Call
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Edited Transcript

MANAGEMENT:
Mr. Punit Goenka – Managing Director and CEO
Mr. Rohit Gupta – Chief Financial Officer

Moderator: Ladies and Gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q1 FY22 Earnings Conference Call. As a reminder, all participants' 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bijal Shah. Thank you and over to you, Sir.

Bijal Shah: Thank you Aman. Good day, everyone and welcome to Zee Entertainment's Q1 FY22 Earnings discussion. Hope you all are well and taking good care of yourselves.

We have today with us our MD & CEO – Mr. Punit Goenka, along with Chief Finance Officer – Mr. Rohit Gupta.

We will start with a brief statement from Mr. Goenka followed by a statement on operating and financial performance by Mr. Gupta. We will subsequently open the floor for questions and answers.

Before we begin the call, 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 conjunction of the risks that we face.

We will now begin. Over to you, Mr. Goenka.

Punit Goenka: Good evening everyone.

Thank you for joining us this evening. First and foremost, I hope you and your loved ones are safe and taking good care, and the required round of vaccinations for you and family are completed.

As per the agenda of the call, our CFO, Rohit Gupta will take you all through the operating and financial performance of the Company, while I would like to update you on the overall business environment.

After the disruption experienced at the start of the previous year, the business was steadily recovering in second half. However, the second wave of Covid-19, has reversed this recovery and our performance in the first quarter has been significantly impacted, by the pandemic and consequent lockdowns. Though the fall in advertisement revenues was much lesser than we had experienced in the first quarter of the previous year, it was still a sizable one. Towards the end of the quarter, while the Nation did see a rapid fall in the Covid-19 cases but lockdown and restriction on economic activities in several states are continuing well into the second quarter. The recovery in advertisement spends has been slower than our initial estimates.

During the quarter our television business suffered from a double whammy on account of pandemic. As audiences were confined to their homes, they were spending more time watching television. We continued production of our original shows by moving the shoots to cities which had relatively lesser level of restrictions and to resorts, which increased our production costs even as the advertisement revenues dipped. Another important development of this quarter was that the Bombay High Court delivered the long-awaited judgement on NTO 2.0. The court has struck down one of the twin conditions requiring broadcasters to build bouquet in a fashion that none of the channel included in it is priced more than 3 times the average per channel. Besides these, all other conditions were deemed legally valid and new regulations are to be implemented within six weeks from the date of judgement. The industry forum and some broadcasters have moved the Supreme Court challenging the order. While we are awaiting the verdict, we have parallelly started working on the revised pricing. As we have previously discussed, the implementation of NTO 2.0 can cause disruption for a quarter or two. But once it settles, we are confident of reverting to subscription revenue growth.

Moving on to our digital business; I am happy to report that our new strategy for ZEE5 is showing early signs of success on expected lines. This quarter, we launched two big properties 'Radhe' and the much-awaited episode of 'Friends – The Reunion'. This led to a sharp jump in our B2C subscriber base. Our focus to drive app adoption led to a step jump in proportion of app users in the MAU base. The strong content push along with better user experience is resulting in improved net promoter score and Top of The Mind Recall for ZEE5, in a crowded market. We have built a very strong content line-up for ZEE5, and we are confident of building further on these improvements.

ZEE5 has been expanding in global markets over the past year, starting with APAC. This quarter, we launched in the US, the largest market for South Asian diaspora. ZEE has a long association of over two decades with the US market, bringing to our viewers, the best of Indian entertainment through our channels. With ZEE5, we now look to offer this audience, as well as the younger demographic, access to a much wider choice of premium content with our originals, digital premieres and more. We are delighted to note the response we have received and we are confident that US would become an important revenue driver for ZEE5 in years to come.

As I touched upon earlier, the recovery in advertisement market is slower than anticipated. Advertisers are waiting for the risk of potential third wave to abate before they start raising their spends. However, we remain confident that as and when, sense of normalcy returns, and fear of lockdowns recedes, advertisement spends would bounce back as the underlying demand for inventory remains healthy. Our confidence stems from the fact that in the previous year, once the Covid-19 surge was behind us, we saw an instantaneous jump in advertisement spends. Despite slower recovery in our advertisement revenues, we have decided to continue to invest in both of our core businesses – Broadcast and Digital, given the large opportunity in front of us. In broadcast space, our primary focus is to improve our market share in Hindi, Marathi and Tamil market with the launch of new shows, high impact non-fiction and increase in number of hours. We would be launching 30+ new shows in Q2 alone across the network. In digital, we would continue to offer differentiated shows and blockbuster movies. These investments would drive our market share putting us in good stead when recovery takes place.

On that note, I would like to handover the call to our CFO, Rohit Gupta to take you all through the operating and financial performance.

Rohit Gupta: Thank you Punit. Hope all of you are doing well and taking good care of yourselves.

The second wave of COVID had an impact on our business during the quarter, like most other businesses. While the impact was much lesser than last year, there were challenges from both operational as well as financial point of view. Starting with Maharashtra, we saw lockdowns in all the states we operate in. Our teams across the markets were quick to react to the announcement of lockdowns and showed agility in moving the shooting of shows to safer locations. This enabled our consumers to continue enjoying original content with a largely undisrupted programming line-up. We also ensured that all safety measures were duly followed and the health of our people continued to be a priority during this process.

During the lockdown, content consumption saw an increase, with TV impressions growing by 9% and reach growing by 7%. Genres like news and movies gained share while GEC saw a decline. During the quarter, we continued to be India's #2 TV entertainment network. The viewership share for the quarter dropped to 17%, however, we have already seen a sharp recovery in the month of July. This drop in share was due to the cumulative impact of lockdown disruption, update in BARC universe and soft performance of some of our channels. While the performance in markets like Bangla, Telugu, Kannada, Oriya and movies was strong during the quarter, in Hindi, Tamil and Marathi markets our channels have significant scope for improvement.

Now coming to ZEE5. Global MAUs and DAUs for the month of June were 80.2 million and 7.1 million respectively. During the quarter, ZEE5 released 11 original shows and movies. As PG talked earlier, release of *Radhe* and *Friends Reunion* on ZEE5 has truly helped uplift the value proposition and brand recall of the platform. With a monthly engagement of 190 mins during the quarter, ZEE5 is building momentum on all key metrics. Annual pack subscribers now make up more than 40% gross additions every month, highlighting the increasing traction on the platform. The revenue and EBITDA loss of ZEE5 for the quarter was Rs. 1.1 billion and Rs. 2 billion respectively. The increased momentum on subscription revenue was largely offset by the impact of COVID on advertising revenues.

The plans of Zee Studios continued to be impacted during the quarter. Zee Music Company continued to be the second most subscribed Indian music channel on Youtube and the label witnessed 80% growth in Youtube video views on a YoY basis.

Now coming to the financial performance for the quarter. Domestic advertising revenue grew by 128% YoY on a low base and subscription revenue saw a growth of 2% on a like to like basis. Compared to FY20, domestic ad revenue declined by 23%. This was due to the combined impact of COVID on overall industry advertising spends and some of the non-fiction properties which could not be aired due to lockdowns. We also had to incur an additional spend of 27cr on shifting shooting of our fiction shows to alternate locations. The EBITDA for the quarter was 3.4bn with a margin of 19.4%. While we are confident that advertising revenue will bounce back as soon as fear of subsequent wave subsides, we continue to invest in our businesses. However, with slower than anticipated recovery in advertising revenues so far, our full year margin will be lower than our earlier guidance.

The cash and treasury investments for the Company was 17.4 bn as on June 30 which includes bank balance of 6.3 bn, fixed deposits of 3.3 bn, mutual fund investments of 7.4bn and NCDs worth 470 mn. Thank you and over to you Bijal.

Bijal Shah: Thank you Rohit. We will now proceed to question-and-answer session. I would like to request Aman to start the Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abneesh from Edelweiss.

Abneesh: My first question is on market share. Whenever any wave happens, Zee's network suffers more versus the other networks. So, the question is if Wave-3 happens what are you doing to future proof that? Is 30+ shows answer to that? Second related question is, &TV was supposed to address the gaps in positioning of Zee TV, in the sense that crime and comedy shows, wherein Sony and SAB TV have a much bigger positioning, that was missing on Zee TV and &TV was supposed to address that. So, whenever waves happen, the older shows are seen. So, that is not possible for the fiction maybe channel like Zee TV. So, wanted to understand &TV, why it is not able to help you in waves? And second for Wave 3, is 30+ shows the answer or you would need to do something on the &TV?

Punit Goenka: I think Abneesh these are two completely delinked things from the Wave 3 perspective. What we have planned in Q2 is what we can physically do from our perspective. I don't think that we can do anything more than that because as you will understand, that anything we plan today can only fructify somewhere between 6-9 months; that's the creative process for any content that needs to be created. We have prioritized the three critical markets, which is Hindi general entertainment, Marathi entertainment as well as Tamil entertainment are the key priorities for the coming quarter or for the current quarter and that's where the significant investments for the company is going to go. The 30+ shows that we talked about, of course are spread beyond these three channels as well, but a significant part of that 30+ shows is on these three geographies or channels that you are referring to. As far as when you talk about Zee TV and &TV complementing each other, it was working well, but when I will be very upfront here. Abneesh as you know, when the mothership is down, the focus of the company shifts towards getting that back into place. So, currently all our energies and investments are going behind that, rather than splitting our resources over two Hindi general entertainment channels.

Abneesh: So, would you address the crime and comedy via Zee TV going ahead in the near term?

Punit Goenka: We already have a show called Zee Comedy Show that launched on 31st July and we are awaiting the ratings for that. That was the first nonfiction show to launch after Q1. So, let's see how that performs and then going forward we will have more such things coming out. And that doesn't mean that we are giving up on &TV for any angle from that perspective.

Abneesh: One last follow up on this, last year in wave one in Q1, there was a big drop and Q2 there was good recovery. Are things similar this time also, you said July month has been good, but if you could give us more color on the recovery part in Q2, the market share?

Punit Goenka: So, we have had some recovery in market share on the viewership side, that will obviously translate into revenue in the coming month or months. But my expectation of the recovery is still lower than what I had thought because July did not go as per what we had anticipated when the second wave had hit us. We were hoping that markets like Maharashtra and Tamil Nadu would come out of a complete lockdown which they have not. And this has a direct impact on advertising revenue especially down south from the retail segment, which is still as you know largely impacted by the second wave.

Abneesh: My second and final question is on the ZEE5. You have taken lot of steps in the last three months – *Radhe* launch, cutting annual price by half, and you shared that now 40% annual packages are there. So, what else is required now? Do you have to build on this momentum or much more is required from new strategy, new steps? And what was the annual pack in that time, so, 40% is current and that's a misleading number because *Radhe* and 499 happened at the same time. So, what should be the number we should realistically look at?

Punit Goenka: Actually, *Radhe* and 499 didn't happen at the same time, Abneesh. 499 was actually introduced in the month of March itself as an introductory offer on the anniversary of ZEE5. We made it permanent when *Radhe* was launched as a permanent feature now. So therefore, it's not correlated. I think what Rohit talked about was the 40% conversion on daily subscriber acquisition is on the annual pack. So, every day the number of subscribers that are being acquired, 40% of those are on the back of annual packs. So, it's a continuing effort, not necessarily only in the month of May which was backed by *Rahe* and *Friends - The Reunion*.

Abneesh: But are you now happy with it? I am not asking a theoretical question, but are most of the steps which were required for getting ZEE5 back in the top race in the OTT, are that done or it's a treadmill, as in new steps what are required? It's a treadmill I know, what are the new steps required to really make it relevant in the top 3 OTTs?

Punit Goenka: Abneesh, I don't think we could have turned around the whole platform in 3 months. If that was the case, then everybody would be running their platforms and reaching those kinds of numbers. It takes a lot of effort. There's a lot more technological advancement that is needed on the platform and we are nowhere close to being perfect or the gold standard. So, we have a lot more work to be done there and we already have a plan in place for the rest of the year for that. And obviously, content as you rightly know, is a treadmill. So, we will constantly have to work on that. It doesn't mean that every quarter you will see a *Radhe* like film coming out, but we have to churn out good quality content quarter-on-quarter for the subscriber base to keep ramping and also for it stay with us so that our churn is managed at a low level for ongoing subscriber conversions.

Moderator: Our next question is from the line of Vivekanand S. from Ambit.

Vivekanand S: I have two sets of questions. One is on ZEE5. Punit, since *Radhe* was released in May, were the MAUs meaningfully higher in the month of May? And can you discuss the impact of churn and how you are dealing with it in ZEE5? And the related question on ZEE5 is, would you want to give any more color on the split between domestic and international usage in terms of the minutes of viewing versus the international market? Anything to add that would be great. So that's question one. I'll come back for the second one.

Punit Goenka: Vivekanand, definitely *Radhe* did contribute to the growth of getting the MAUs from where they were in the end of Q4 to the numbers that we have just declared at 82 million. *Radhe* did aid significantly on that. But it's not only *Radhe*, because the people who came on to consume *Radhe*, have experienced other content as well and therefore they have repeatedly come back even in the month of June. I think it has worked well for us from that perspective. That was your part one. On the second part, I think the international market to be split out is a little bit premature right now, given that the biggest market for south Asians just got launched last month, end of June. So, I think we will wait for a couple more quarters before we give you more color between how the India is behaving versus international.

Vivekanand S: One small follow-up. Is it fair to assume that the revenue split for ZEE5 would be similar to the revenue split for the overall business domestic versus international? Or does it have much higher skew towards international revenue?

Punit Goenka: Again, too early to tell because firstly it will not be in line with the way television business revenue is split is because we are talking about a business which has been running steadily for almost three decades versus a very new business that is just being established and the markets are still being launched. So, we will be comparing chalk and cheese here. Let me not try and over guess what we should be wanting to be achieving.

Vivekanand S: Fair enough. The second question is on the subscription market. You said that we will be able to get back to the mid-teen growth basis the Bombay High Court judgment. Did I get that right or do we need any more changes to be made for the NTO implementation to resume our journey of subscription revenue growth double digit?

Punit Goenka: Ideally, we would like all these conditions to be removed. That's the ideal situation. But we don’t operate in an ideal world.

Vivekanand S: My question was more around is this removal of 3x condition (NTO 2.0 clause deemed arbitrary by Bombay HC) enough for you to grow faster?

Punit Goenka: So, I was saying the ideal situations are ideal situations, but we don't operate in an ideal world. And as I have maintained that even in the current form, we are gearing up to launch the NTO 2.0 as soon as the judgments are passed, and basis that the disruption may happen for a quarter, or maybe two at max. And after that we will start to see a growth trajectory on the subscription revenue line for the linear business. So that we are maintaining going forward.

Moderator: The next question is from the line of Naval from Emkay Global.

Naval: I have questions around the margin guidance. As Rohit stated in his initial remarks that margins in this year will be lower than earlier guidance of close to around 25%. Now can you share, if not guidance, but new range whether it will be like 20-25, below 20, any number over there? And it implies only for this year or are we changing for next year as well?

Rohit Gupta: See, as I highlighted, the ad revenue recovery is slower than estimated. And there are several uncertainties and advertisers are in wait and watch mode. There seems to be a possibility of wave 3 of COVID again disrupting economic activity and consumption. So, this makes it difficult to predict the ad revenues for the year. However, we are continuing with our investments in both digital and the broadcast business. And accordingly, there will be an impact on margins, working capital and cash. However, it is difficult to give you a precise number at this stage. As more clarity emerges in coming quarters, we would give a color to likely margins. As far as FY23 is concerned, it is too early to guide. We will talk about the margins for FY23 around end of this year.

Naval: Follow up on this, basically your FCF guidance also now stands canceled or kind of revised with margins going down substantially. Am I correct?

Rohit Gupta: See, it's all related. If the revenue is going to be lower and, like I said, we will continue to make our investments which are required, there will be an impact on working capital.

Naval: Secondly, has the production cost gone up, although 1Q was somewhat different because of lockdown restriction and isolated kind of shooting what you would have done. Has production cost gone up now structurally or this is again a kind of a blip what we have seen in 1Q?

Punit Goenka: It was a 1Q thing Naval, because of the lockdowns. Of course, if there is another lockdown, we are already preparing that in case of the third wave, and if there are lockdowns again, we will have to go and shoot in markets where there are easier restrictions. But beyond that comment, I don't think that it's reset the benchmark of production cost.

Naval: Understood. And lastly on ad revenues, how are yields in terms of, although it would be distorted, but can you suggest how far are they from pre-COVID levels? If you don't kind of include Zee, which you have already stated, there has been a market share challenge there, but on a like-to-like basis on your key channels, how far would the yields estimate to pre-COVID?

Punit Goenka: Most of the decline that you are seeing in the revenue against the FY20 comes from largely yields. It's not coming from inventory fill levels.

Moderator: The next question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: Two questions from my side. First on the subscription side, we said that we will see disruption before we get to the growth. Can you give some more color on what kind of disruption are we expecting, are we expecting revenue to decline from these levels and then grow from there, are we expecting disruption in the reach for some of the channels? How should we look at this disruption in the implementation of NTO 2.0?

Punit Goenka: It maybe a combination of that Sanjesh. See, we are working on the pricing and we are working on the new bouquet strategy that we are working on. Obviously our first and foremost objective will be to maintain status quo on both reach and revenue. There could be some disruption if we have to take calls on either one side or the other - if we have to maintain reach, we may have to sacrifice some revenue in the short term, and vice versa if we want to get growth immediately, we may have to sacrifice some reach to do that. We will take those calls on the ground when the implementation is happening. But of course, the endeavor for the company is to maintain status quo rather than anything else. Even if you remember, during NTO 1.0, we managed to maintain status quo despite losing some reach in some of the markets but we could quickly get that back once the disruption ended after a quarter.

Sanjesh Jain: My second question is on the movie production side which we have guided that we are looking at expanding the movie releases which we want to do. Can you give us some color how many movies are under production and how many are under planning and do you see some of the movies you plan for this year getting pushed to the next year because of the lockdown and what kind of investment are we looking this entire year in the movie production side?

Punit Goenka: Again, to reiterate our investments in movie production are incremental to what we are already spending on buying movie rights for both our satellite business, digital business and our music business. There is no significant higher investment that's going in. Yes, what it is doing is it is locking up our inventory or advances because it's working capital in progress due to the COVID situation where movies have got delayed, either for lack of shootings happening or the fact that theaters are not open and hence, we are not able to release the films. So, definitely as you rightly said, some movies, at least the big films that we had planned this year, will get shifted to next financial year but as and when the theater situation gets more clearer, we will be releasing films as planned. We had started work on about 20 films when we had said in the beginning of the year, obviously all 20 will not release this year in the theatrical situation, but more clarity will emerge with the lockdown situation changing.

Sanjesh Jain: One last from my side on advertisement revenue. Do you think, advertisers who are largely FMCG company for us are struggling from the higher raw material costs and their margins are under pressure and that is one of the incremental reasons which is causing stress for us in terms of the advertising spend by these FMCGs? Do you think that situation need to normalize before they come back and wholeheartedly again start advertising on our channel?

Bijal Shah: Sanjesh, primarily what we have seen in 1Q and what we saw in July is on account of COVID. If I look at category by category, the category within FMCG, which are more impacted by raw material price inflation, have actually fallen much less. But let's say personal care has fallen slightly more and which has much more, I mean, going out and those things are more relevant when it comes to category like personal care; consumer durables also has seen a significant decline. So, I think so far what we are seeing is much more related to consumption like slow down - because of lockdown consumption is impacted and due to which advertisers are circumspect whether they should be investing right now. And also there is not much of visibility what will happen going forward. Second thing, which is driving down the spends is that very few launches or innovations being put in the market. Typically, if you see, any big company, they would be launching a lot of new products and introducing new categories. Now, this thing has taken a backseat right now because the supply chain, distribution chain itself is disrupted and we are let's say launching a product and if there is a lockdown then probably whatever you spent on advertising will get lost. So that is also one of the factors which is impacting. What we sense right now is that as and when the fear of lockdown goes away and we are around the festive season, probably we can actually see a pretty sharp rebound in the ad spends. There are some challenges which they are facing but we really don't sense that they are so material that growth trajectory will be altered on account of that.

Moderator: The next question is from the line of Yogesh Kirve from B&K Securities.

Yogesh Kirve: I appreciate regarding the margins the comments that were made. I mean, in the short term, because of the COVID scenarios is quite fluid, but from a longer-term perspective, beyond FY23 or FY24, based on your mix of business and your strategy with respect to the digital business ZEE5 and the state of television business, so is it fair to assume that the structurally new margin profile won't be different than what it was pre-COVID?

Punit Goenka: See again, if you're talking about very long-term perspective and assuming that COVID is completely behind us, let's say the country is 75%-80% vaccinated or double vaccinated, the margins should improve. There should be no reason why we cannot go back nearer to the pre-COVID level margins. But if you ask for specific guidance for current year or year after, it's difficult to predict from today's perspective, given the fact that what we were predicting at the beginning of Q1 has played out so negative. That's the reason, for lack of a better word, caution, but certainly being in this business, I don't believe that structural change in margins has happened. Things should come back to normalcy, how soon they come back normalcy is the question that time will tell.

Yogesh Kirve: Second is partly related to this. Regarding ZEE5 losses, I mean any sort of guidance or indication of when do we expect the losses to peak out, any comments or any color on that could be useful?

Punit Goenka: I think we have already stated that this will be the peak investment here for ZEE5, in terms of losses and as the revenue growth starts to come in, you'll see losses coming down. Although next year maybe only marginally low, but the year after that, you start to see significant changes in that.

Yogesh Kirve: Finally related to the cash flow, despite cash profit, cash and cash equivalent have gone down. Could you take us through the key push and pulls during the quarter? I see some current working capital liabilities have come off, so if you can provide some color on that?

Rohit Gupta: It was also seasonality attached to it, so our March quarter is always a very strong quarter, because of lot of subscription flows coming in that quarter. Plus, as you would have seen from the balance sheet, there has been release of a lot of creditors, in terms of the overall incentive payouts and bonus payouts that happened. There's a lot of seasonality to it. Yes, there have been some digital investments that have been made in terms of movies etc. But overall, it's more to do with seasonality.

Moderator: The next question is from the line of Jay Doshi from Kotak Securities.

Jay Doshi: First question is when I look at the sequential increase in revenues of ZEE5, it's just about Rs. 4 crores. I was expecting it to be much higher, given that large part of booking related to *Radhe* may have happened in the quarter. Just want to understand how does the revenue accounting work, for subscriptions as well as advertising, and how does cost amortization or expensing work when you buy a big-ticket movie, like *Radhe* for ZEE5?

Punit Goenka: So, first part Jay, revenue increase has been significantly more on the subscription line but it got eroded because of the advertising going down that we saw in terms of COVID impact etc. Also because of sporting events, a lot of campaigns got shifted from ZEE5 on to other platforms.

Bijal Shah: Basically, a good part of this revenue will be recognized over a year, because primarily subscribers have come on annual pack. Now on annual pack we would be recognizing revenue on a daily basis. Let's say if it is 365 rupees, every day we accrue only one rupee. Now this movie got released in the middle of the quarter and people subscribed say over next 15-20 days, so full reflection also of the subscription revenue is not there in the quarter of people who joined ZEE5 because of *Radhe,* and that revenue you will continue to see in the coming quarters. On the cost side, we are following exactly the same policy for recognition of cost which has been in force for several years. So, when it comes to movies, when it is a digital release movie, whatever cost is there that will be amortized over period of five years in equal monthly installments. There are some costs of *Radhe* which is relating to music rights, it will be amortized 50%, 25%, 25% and the satellite also will be amortized over five years.

Jay Doshi: Second question is, Punit on the last call you had indicated, obviously with the caveat, that if COVID doesn't spill over to second quarter, then you were hoping for a double-digit advertising revenue growth versus FY2020. Now that clearly you indicated that July has been weak and some impact of COVID continues, I know it's difficult to predict advertising outlook, but if we are not hit by a third wave and if progressively, sequentially economic environment improves or recovers from here on, where should we expect advertising revenues to be, would it be comparable to FY20 or it will still be lower than FY20?

Punit Goenka: Well, with the caveat that you are putting, I think it should be comparable to FY20.

Jay Doshi: Correct. And, on subscription, domestic subscription perspective, the uncertainties were unknown even during the last quarter. Incrementally, would you say it has improved on the margin or it's still remained as uncertain as it was a quarter ago, in terms of domestic subscription outlook for the current year?

Punit Goenka: Actually we had when we were talking about the domestic subscription. Unfortunately, the implementation of this will happen right at the peak of the season of the year. That's the reason it is causing more uncertainty to us. If it had happened by the first quarter and was done with, we would have been fully settled without any disruptions during the peak seasonality of our business. Having said that, I still think the disruption will be only for a quarter or maybe little bit over a quarter, if at all, given the fact that you have to get so many households to realign their packages once again, and after that things should settle back and growth should start coming in.

Jay Doshi: There is little bit of delay versus your expectations on the subscriptions also.

Punit Goenka: Correct, yes.

Jay Doshi: Sorry. I mean, in the opening remarks when you mentioned that you have started engaging, to me it appeared as if at least there is little bit of improvement. Thanks for clarifying that. Finally, in response to one of the questions you indicated, I think it was around &TV, that when the mothership is sort of not doing well, it becomes difficult to invest in other channels. I think currently, at least last 7-8 years that I have observed ZEE's viewership or tracked it, it was on the upward trajectory and then stabilized at a certain level. If I look at the last 7 years, perhaps it's one of the most challenging times in terms of viewership patterns in Marathi, to some extent Hindi and overall at a portfolio level. So, which would perhaps call for higher investments in the core business and that you also indicated. So, are these investments going to come at the cost of digital investments that you could have potentially done, or you are going to stick to your original plan of digital investments and incremental investment on TV will also go through? So, I mean, in your operating plan, both on the revenue side, because there's a little bit of uncertainty both on advertising and subscription, how do you think about investment in the business versus what you would have originally projected when we were hoping that 2Q onwards things will normalize?

Punit Goenka: Actually Jay, sometimes in our effort to be extra prudent, we end up hurting ourselves in the bargain. One of the key results of being over cautious on investments last year, has resulted in the market share decline that we have seen. Therefore, I am of the opinion that this year we should not be holding back any investments, either on our linear business or on the digital business. Having said that, I don't think the linear investments are going to come at the cost of digital business because in terms of the quantum of investments are not changing. If you compare it to pre-COVID levels, the

FY20 numbers and the investment levels in the linear business this year, we are talking about incremental growth. We are not even talking about very significant growth on an annualized basis. It may be heavy in one quarter or another quarter, but on annualized basis, it will be incremental.

Jay Doshi: Understood my final bookkeeping questions for Rohit. I understand that free cash flow is very difficult to predict when there are too many moving paths and uncertainty, just one number if you can at least give us some ballpark guidance. What is the ballpark budget that you may have as of now for investments in movies, in terms of procurement of satellite rights for TV, as well as digital? I understand that ZEE studios business will be dependent on the number of movies you are able to, the pace of progress, in terms of, but at least for the satellite rights and for TV and digital, how much should we forecast?

Bijal Shah: See Jay what you have asked is the most difficult thing to forecast, because we don't even know which movies will come. So, we were looking at some of the releases and for which probably we were signing deals, now, some of these releases are actually been postponed by 3-6 months. And some of the guys are thinking that let's see, there is a movie release, *Bell Bottom,* probably in the month of August, so how the occupancy goes and that is the deciding factor for many of the guys whether to invest or not. At this point of time, slate which will come up for purchase, that itself is not clear and would be very difficult to answer this question.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Lilladher.

Jinesh Joshi: I have a question on the digital side, now given that, subscription income is sticky in nature, can you share what is the current paying subscriber base in the digital domain and how do you see it evolve in the next 2-3 years? And in that context, what kind of market share is ZEE5 targeting, considering this space is highly competitive in nature?

Punit Goenka: Currently the paying subscriber base in India as various reports have quoted out Jinesh, is ranging between 40-50 million individuals or connections. This is projected to grow in the next five years to anywhere between 180-220 million. And we would be targeting at least a similar market share as we target in our TV industry, so 20%-25% market share we should be targeting.

Jinesh Joshi: And this 40-50 million connections which you mentioned, does it include the discounted connections via telco deals or these are the direct acquisitions via B2C?

Punit Goenka: Unfortunately, none of these reports give the split between the B2B and B2C subscriber base, but if I was to fathom a guess, it will be roughly 60% coming from B2B and 40% coming direct B2C.

Jinesh Joshi: One last bookkeeping question from my side, in the last quarter we collected some 2 billion of old outstanding from Dish, so has there been any recovery this quarter? And can you share, what is the current, outstanding from Dish entity that is overdue?

Rohit Gupta: So, we had, like I indicated earlier also, revised payment plan has been agreed with Dish and we have been recovering money from Dish as per the agreed payment terms. So, this quarter also we have received money as per the repayment terms. The outstanding as of March'20 was 5.8 billion, which came down to 4.5 billion in March'21. And as we stand on 31st July, it is down to 3.7 billion. As I said earlier, we would be recovering all the old outstanding by the end of FY22.

Moderator: Our next question is from the line of Kshitij Saraf from Tusk Investments.

Kshitij Saraf: My question is, overall in terms of how you see Zee growing in the next 3-4 years. By the year 2025, what is the vision you have set out in terms of revenues, margins and how do you plan to use the content investments in ZEE5 to move ZEE5 as well as Zee Music to the next leg of growth?

Punit Goenka: As I have said several times that we do expect that Zee will continue on its trajectory of growth as it has been doing in the past pre-COVID levels, which is, we have been growing at a healthy clip and certainly ahead of industry always. We hope to achieve that once this COVID era is behind us. On the fact that the overall revenue of the company, I expect ZEE5 or the digital business of the company should contribute anywhere about 30-35% of the overall revenue of company should come from that vertical. Music again will be smaller because the overall revenue will be much larger. The overall music industry today is just about 1000 crores annually in terms of revenue and not more than that. So, there's not really that one can scale it to that kind of a top line, but certainly our two critical businesses will be broadcast and digital, and of course music being an important ancillary business and movies also being another important ancillary business for us, or what we also informally call feeder businesses to our core business.

Moderator: Thank you. We will take a last question that is a follow-up question from the line of Vivekanand S from Ambit.

Vivekanand S: Thank you for the follow-up opportunity. I have two questions, one, Punit last quarter you mentioned about the five-year business planning exercise. Is there anything significant to share, for example, would you want to consider entering into other genres like sports as you would not have any non-compete then or say potentially enter new categories and is there any other guidance that you want to share on 5-year targets?

Punit Goenka: Yes, the only guidance I can give you is that we will consider and enter genres or verticals of businesses that are firstly in entertainment and entertainment only. Secondly, they have to be value accretive and therefore we will consider entering those businesses. Just to clarify, I don't think sports will be value accretive even the next five years, so that is not being considered in our plan. Beyond that, there is nothing else. As of now, I think our plate is pretty full with what we have in terms of the expansion plans. At least for the next couple of years we are going to focus on that and then look at any other verticals. Of course, expansions within the existing verticals will continue, whether it's new genres or languages or markets that we will enter; but any adjoining genre etc., we will consider only after a couple of years, that too if it is value accretive in nature.

Vivekanand S: The second one is a bookkeeping question. In last quarter, we also would share the monetization of music content that was included in the subscription line item, is it possible to disclose that so that we can compare the subscription level moving with monetization?

Bijal Shah: So Vivekanand, if you see the last year's number, you can actually find out like-to-like number. Like-to-like growth in overall subscription base is 2%, and beyond that at this stage we are not disclosing. In due course of time we will start disclosing, first subscription revenue from digital and that's the first thing, but at this point of time it is a bit difficult to give you details of quarterly music segment revenue.

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