Zee Entertainment Enterprises Limited

Q4 FY17 Earnings Conference Call

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Edited Transcript

MANAGEMENT:

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Mr. Mihir Modi – Chief Financial and Strategy Officer

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to Zee Entertainment Enterprises Limited Q4 FY17 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 call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bijal Shah. Thank you and over to you, sir.

Bijal Shah: Thanks. Hello everyone! And welcome to Zee Entertainment's Earnings Call to discuss Company's performance in 4Q FY17. Joining us today on this call is Mr. Punit Goenka – Managing Director and CEO of Zee Entertainment, along with Mr. Mihir Modi – Chief Finance and Strategy Officer.

We will start with a brief statement from Mr. Goenka on fourth quarter performance. Subsequently we will open the call for questions. Before I pass it on to Mr. Goenka, I would like to remind everybody that anything we say during this call that refers to our outlook for future is a forward-looking statement and should be taken in context of the risk that we face.

Thanks, and over to you Mr. Goenka.

Punit Goenka: Thank you, Bijal. I would like to welcome everybody to this call. I appreciate you joining us for the discussion of the results of fourth quarter and full year fiscal 2017. I would like to start the call with the corporate development followed by financial and business performance.

We have completed the first phase of sale of sports business to Sony Pictures and received USD 330 million for the same. We are exploring ways to extinguish preference shares liability using these proceeds.

Coming to the financial performance. We are happy to deliver yet another quarter of strong financial performance in a difficult economic environment. Our domestic advertisement revenue grew by 8.1%, despite the impact of demonetization. However, consolidated advertising revenue was flat due to high base in our sports business last year and country specific issues in some of the international territories. After a couple of quarters of weakness, advertising growth appears to be back on track. Overall, GST could boost advertising spend as part of the potential tax savings might be reinvested in advertising

Our subscription revenue declined by 6.1% largely due to catch-up revenue in the fourth quarter of FY2016. Consolidation of sports business for two months this quarter also impacted our subscription revenue. While there is uncertainty regarding the implementation of new TRAI's regulation due to the pending litigations, we have published the prices of our channels and bouquets. We are confident that with the strong competitive positions of our channels in every genre, we will be able to drive subscription business.

EBITDA for the quarter grew by 14% and EBITDA margins stood at 30.7%, up 370 bps compared to Q4FY2016. For the full year 2017, EBITDA growth stood at 27.3% and EBITDA margin improved by 390 bps to 29.9%.

We see movies as a key long-term growth driver for our business. We have a portfolio of 11 movie channels across Hindi and regional languages. During FY2017 we have significantly increased acquisition of movie rights and ramped up our movie production business. These investments explain the large part of increase in our working capital. The cash and cash equivalents for the quarter ended 31st March stood at Rs. 39.7 billion.

Now I will cover the business performance starting with the broadcasting business.

In the preceding quarter, Zee Network's viewership share, excluding sports, was 16.1%. While our market share in the pay Hindi GEC bouquet was stable, we further strengthened market share in the regional portfolio.

Our pay Hindi GECs, ZEE TV and &tv had a combined viewership share of 21% amongst the top 7 channels in the genre. Zee Anmol, Hindi GEC catering to Free-To-Air (FTA) audiences was ranked third in the genre. In pay Hindi Movie genre, we continued to retain our leadership position. Regional entertainment portfolio once again exhibited strong performance. Zee Marathi maintained its market share at number one position in Maharashtra/Goa market. Zee Bangla was the second most watched channel in West Bengal. In Telugu market, Zee Telugu was the second ranked channel. Zee Kannada strengthened its position as the second ranked channel in Karnataka. Zee Tamil was the second ranked channel in the Tamil market. Sarthak TV continues to dominate the Oriya market. Our English cluster continues to perform well, bringing the best of entertainment content and movies from around the world.

Moving on to our other businesses.

Zee Music Company, our music label, continued its library expansion with acquisition of rights of both Bollywood as well as regional music. In Q4, our music label registered more than 2.2 billion views on YouTube.

Live events business kicked off on ground shows under the Zee Theatre umbrella in 9 cities across the country and 3 cities overseas. Zee Live's other property 'Wicked Weekends' continued to enthrall young audiences in metro cities.

DittoTV is now integrated with major telecom operators which has led to good traction on the platform. OZEE continues to see organic growth with increased footfalls and witnessed an average of 50 mn+ video views per month during the quarter.

With this opening comments, we would like to address any questions that you may have.

Moderator: Thank you very much. Ladies and Gentlemen, 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 the international business. Both the segments have seen significant fall, ad at 53%, subscription 18%. How do you see FY18 in this, because now Ten Sports sale has happened, in that context sports revenue clearly will get impacted. So, how do you see international business in FY18?

Punit Goenka: So, just to address the subscription piece, last year in fourth quarter, in international market also we had a catch-up revenue from Dish Network, that deal got signed in the fourth quarter last year. The ad revenue is impacted due to several territories which are facing economic/market issues like Middle East.

Mihir Modi: I think in addition to the economic situation in Middle East, there have been some small regulatory changes that have affected the ad revenues. Like in Bangladesh, where the regulation changed so that locally produced advertisements were not allowed on foreign channels and we lost some ad revenue there. But clearly going forward, our strategy of getting into the local markets through our Indian content, modified and customized for local viewing will continue. I think with the kind of spread that we have across the world, there will be some or the other regulatory issues that we will continue to face. But overall, we are satisfied with how our growth has happened, for example in South Africa or in other parts of the world where we have launched newer channels. Poland is underway as well. So, we expect that strategy to continue with a few hiccups, which is normal for a business spread across so many geographies.

Abneesh Roy: So, will it be fair to say in FY18 also the decline will be there for the overall business, because Bangladesh issue which you mentioned and the Middle East slowdown, both the things seem to be recurring in nature in FY18?

Mihir Modi: I think it is difficult to comment on that. I think Middle East is in the base in some senses, it is difficult to say whether it will continue the downward slide or it will recover. And also, if you look at the breadth of our presence, there may be some or the other market that may compensate for the positive or negative. So I think it is a bit too early to kind of comment on specifics of market by market, but our attempt clearly will be to continue to grow our international revenue streams and grow profitability.

Abneesh Roy: Sir, one follow-up on domestic subscription. In Q4, normally there is a catch up that we see in most years, so this year the catch up was not there and of course base issue was there. Why catch up was not there, is it because of Ten Sports, or is it maybe because of lower viewership ratings for flagship channel or may be because of uncertainty because of tariff order. So, which reason was the most important?

Punit Goenka: The main reason for this, Abneesh, is purely due to the fact that, in FY2017 our contracts' execution happened much sooner and we had many deals which were multi-year in nature. Therefore, the catch up happened all in second quarter and third quarter itself. As I have said again and again, one channel ratings will not impact the overall subscription revenue line in a big way. If you look at the domestic subscription full year, the growth has been 13.5% adjusted for the sports business sale. So, it is still a pretty healthy growth for the full year.

Abneesh Roy: And you expect that growth in FY18, 10% kind of number with sports not being there?

Punit Goenka: We will definitely grow post the sports thing, of course you have to adjust the current year number for the sports sale first and then look at the growth on top of that. Still, having said that, the volatility of the new tariff order, how it will play out is still a bit uncertain for us. Therefore, we will not be forecasting the subscription growth number as of now. Closer to the implementation date we can give you a better color on what the year will look like.

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

Sachin Salgaonkar: Just wanted to have your take on three questions. Firstly, if you guys could comment on how has generally been the ad growth recovery happening in the domestic market, post demonetization?

Mihir Modi: So, I think it is safe to assume that the market is coming back to its pre-demonetization growth levels. The expectation for the financial year FY18 is that the television ad market will grow in low double-digits. So, we are back to the pre-demonetization times and our commentary on that remains the same, that we will attempt to beat the market like we have been saying and achieving most of the times in the earlier cases. So, I think the demonetization phase is behind us.

Sachin Salgaonkar: And clearly we saw certain prices on a-la-carte and bouquet coming from Zee, just wanted to get your big picture thoughts on how do you look at RIO in terms of timeline of implementation and how as a company you will go about it. And, generally your thoughts on how the industry will go through and how do you see a larger broadcaster like Zee positioned in that?

Punit Goenka: I think if broadcasting industry does realistic pricing in the RIO scheme of things, it should benefit the industry overall. Implementation, as of now the regulation stipulates 1st September, but that comment comes with a rider regarding the stay order that Supreme Court has given this week. We will have to see how the Chennai High Court hears out the entire case. But overall, my comment is that if we do realistic pricing based on the pull of the channel, the industry overall, not just broadcasters but even the distributors will benefit.

Sachin Salgaonkar: And do you see, that certain channels of yours, what you call as smaller channels, which are bundled today, perhaps shutting down or closing down?

Punit Goenka: Shutting down channels is irrespective of the distribution strategy. If you look at our bouquets, I think we have done quite a smart bouquet strategy. I do expect most of the channels will get picked up because of our bouquet strategy and the reasons for shutting down channels will be very different compared to what you are alluding towards.

Sachin Salgaonkar: And my last question is generally on flagship Zee TV. Your thoughts on when the programming hours could start moving up? By the looks of it, it looks a little bit slow.

Punit Goenka: So, as of now we are still in the process of fixing the core primetime content itself. Once we have achieved that in the next quarter or so is when we will start focusing on adding hours of content. So, we are still focusing on the core prime time and fixing that in terms of ratings before we move to expanding hours.

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

Parag Gupta: Punit, my first question is to you with respect to domestic subscription income. I just wanted to understand for FY2018, the TRAI order you talked about will create volatility, but also this could get implemented only later this year given the current stay order. And then on the other hand we have Phase-III monetization likely to improve from the cable side and Phase-IV seeding activity also picking up. So, how do both of these play out in terms of subscription revenue growth for the year, some directional sense on that?

And my second question is to Mihir on margins. How do we see the margins trajectory in FY2018? Again, given that you talked about investments in original content potentially only happening a quarter or two down the line, so how do we think about margins for the year?

Punit Goenka: So, Parag, on the subscription side, we will definitely grow once we adjust for the sport business that has gone out. How much we grow depends on how soon the TRAI order gets implemented. My view is that we will see some growth. If the tariff order gets implemented as envisaged in its current form, I do expect the growth levels to be in mid-teens to high-teens for the company, if all the stakeholder in the system do their bit. But as I said, we have to still wait and watch how that happens. Is that clear, Parag, from the subscription side?

Parag Gupta: Yes, I think that is good. Thank you.

Mihir Modi: Parag, on the margins, we delivered a full year EBITDA margin of 29.9% in FY17. We have always maintained that our steady state margin which we would aim to deliver is north of 30%. Theoretically, and I am just repeating what we have always maintained that theoretically it is possible to take the margins further up by 200 bps-400 bps for that matter, but we would want to make sure that we are not underinvested and therefore our attempt will be to keep the margin at about 30% plus, and I think we can assume that attempt for FY18 as well.

Punit Goenka: Just to add to what Mihir is saying, the number of hours that we refer to is only on the flagship channel. Keep in mind that we have a pretty large network of channels and we will be adding hours even in the current quarter that we are speaking. Our fourth quarter number of original hours of content produced per week is in the vicinity of 360+ hours, across the network, and this is only our GEC content. So, the impact of just one channel not having a particular number of hours is not that great to our margins.

Parag Gupta: And if I were to think about investment in content, would fiscal 2018 actually be an aggressive push on content, be it on the movies side or on the channels side or do you think it is not going to be as significant as what we saw in the years when you had new channel launches?

Punit Goenka: No, we will have pretty aggressive investment in content, not just on the movie side but even on the GEC and digital side.

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

Vikash Mantri: Good afternoon, sir. I have a number of questions. Operator, please feel free to cut me whenever I have exceeded my time. Sir, on the advertising side, I am surprised with the commentary. What I have tried to do is I have adjusted your advertising revenue performance for both sports and international. And there I actually see a 16% growth in domestic, so this is actually a very superlative growth. So, going forward, basically it should be much more than this given there was some impact of demonetization. Is my understanding right?

Bijal Shah: So, if we adjust for both, the growth is around 8.6%, and we can run you through the numbers. We can take you through the numbers after the call.

Vikash Mantri: Okay. Because you have just given sports numbers and international numbers, which I have subtracted.

Bijal Shah: International advertising revenue has a lot of sports in it, and that is why probably you might have miscalculated.

Vikash Mantri: Okay, that is much better. On the RIO prices that have been declared, my understanding was that these prices are just to meet the TRAI notification. The real prices which will be applicable, we have an opportunity to do so just 30 days before the order comes into place, is my understanding right? Else, I will have to ask a few more questions on the pricing of the channels.

Punit Goenka: No, Vikash, it is incorrect. We have filed the pricing in accordance with what we believe is the right price for our content. Unless, as per the court some new conditions are levied on the tariff order, we will not be revising our pricing.

Vikash Mantri: Okay. So just to understand these prices, what I see is one peculiarity between what you have reported and others have reported. Somehow both the FTA channels of TV18 Group and Star have been showed as pay channels, whereas we have not done that for Anmol. I thought that was a good move for the industry because for last 2-3 quarters we have been debating on the too much content on FTA channels.

Punit Goenka: Well firstly, it is not my place to comment on what my peers are doing in the industry. But I am guessing that as regulation does not apply to DD FreeDish, they would try to create a differential pricing for DD FreeDish and differential for the pay market. This is my understanding and I do not have any confirmation from anybody. And hence we have chosen to remain the way we are in terms of our FTA strategy.

Vikash Mantri: So just to understand this point better, a channel can be present on DD FreeDish but still be pay as per the new tariff order?

Punit Goenka: Yes, it can.

Vikash Mantri: Okay, that is interesting. Now another observation and comment on this side, first time we have disclosed numbers on the sports detail. And I am surprised to see around two-thirds of the revenue coming in from subscription in sports. Whereas, if I remember right, the earlier commentary always has been equally one-third split between three revenue streams of advertising, subscription and syndication. So, has something materially changed in terms of behavior of sports over the last few quarters or so?

Mihir Modi: The mix would change year on year because, while the subscription would remain steady, the advertisement and the syndication revenues would be very event led. So, these are the numbers for the last fiscal that we have disclosed. The reference to the kind of split that you made, could be in a particular year, and I do not know the specific one you are referring to, but would certainly be of a year where the mix was different because of the events happening in that particular fiscal. Therefore, ad being that much more sensitive to those events, and so is the case of syndication.

Moderator: Thank you. We have the next question from the line of Jay Doshi from Kotak Securities.

Jaykumar Doshi: Can you talk a little bit about the investment that you have made in Margo Networks and what is your strategy on digital in the coming year?

Mihir Modi: So, Margo Networks, as we had announced, we have acquired 80% stake in the company for investment of Rs. 75 crore in the company. The company has developed the technology and is in the process of developing it further, which will enable digital consumption of content. Having said that, our digital strategy is much broader and we are working on multiple fronts, including content, including platform and Margo alongside. We are in the process of developing that strategy and it is likely premature right now to talk about it, we will talk about it as we are closer to launching that. So, I think Q2 probably is a better time to talk about it in more detail beyond, what I said.

Jaykumar Doshi: And just one more question. In terms of free cash flow generation, do you think that the way the business is changing in terms of the needs for investments in movies and other areas, will it remain at a similar level for the foreseeable future or do you see improvement, I mean, the investments in movies in this year, is it more related to two years or it is largely related to one year of investment?

Mihir Modi: I think it is a combination of both, Jay. There are some advances given for production which would get us the products and the benefits over a two year period, and there are a few which are immediate as well. I think I will zoom-out and say that the business will continue to require investments in the company and in films, films being one of the important areas that will drive the growth and the profitability. So, short-term, we are not going to shy away from making those investments. The good part is that over a reasonable period, say for example, between 18 months to two years in case of some films, the entire investment flows through the P&L, so you will see that in the profitability, which is what we are aiming to keep at a good level. So, the short-term swings in investments will remain, that will be partly strategic, partly tactical. But like I said, it will pass through the P&L eventually, and profitability is our focus as well.

Moderator: Thank you. We have the next question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: The first one is on the investments over FY18 and FY19. You have outlined that you will continue to aggressively invest on multiple fronts like movie, content and digital. Specific to the TV business, management has spoken about white spaces in the Indian market, such as Malayalam, and Bhojpuri which you recently acquired. So, any thoughts on entering the white spaces in the Indian market that are pending? That is one. And secondly, with respect to the Bhojpuri acquisition, by when will we start incurring or making investments aggressively in that portfolio? And is there anything that you want to call out in respect to the investment losses for FY17 and quantum of investment in FY18 in respect to, say, a percentage points of margin or absolute amount?

Punit Goenka: So, as Mihir had said in the previous question, that with all the investments that we are making, whether it will be in the broadcast business, digital, or in production, as a company we will still deliver margin of 30%+. So, that accounts for all investments that we have forecasted for. Having said that, to answer your other question, yes, we are working on entering all the spaces that do not exist in our portfolio. And it is not just language based, but it is also genre based. We would like to enter those new genres in the languages that we are present it. So yes, we will be getting into those markets, whether it will be in the current fiscal or in the next 18 months we will see as we are still working on our plans.

Vivekanand Subbaraman: Sir, a small follow-up. What about Bhojpuri, what is the magnitude of loss that we will be looking at there? Because when we look at the financials of RBNL, the losses are obviously very, very significant. But how should we look at that in numbers?

Punit Goenka: RBNL as an acquisition will be margin positive during the first year of our taking it over.

Mihir Modi: I think it will not move the needle substantially. So, we are looking at the total margin, and therefore, towards that effect it will be a minor movement here or there. So, it is not worth taking into consideration for any forecasting.

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

Rajiv Sharma: Just a couple of questions from my side. Just wanted to understand the ongoing digital strategy which you have and you will discuss later in Q2. So, let's say you invest Rs. 200 crores or Rs. 300 crores there or Rs. 500 crores there, will you spread that over two years or will that be an upfront charge in the P&L on this new digital platform you are working on? And secondly, are there any plans for having content being made for international markets apart from just dubbing and subtitles? And will that fall in that 30% kind of guidance or it goes beyond that?

Punit Goenka: So, Rajiv, irrespective of what the loss will be in the digital business, we have already guided for the margins. So, that also accounts for the digital strategy losses that we may incur. Having said that, guiding for losses on digital, we are still working out our strategy of launch, etc., which we will talk about around Q2 with all of you. On the international content side, we will be producing content in the international markets, as we have been doing in the past, especially in the Middle East. That too is factored into the 30% guidance that we have given.

Rajiv Sharma: Okay. But what I was trying to understand, any investment which goes in digital, does it get spread over two years or it is upfront charge to the P&L? More of the accounting treatment I was just interested in.

Punit Goenka: What kind of cost are you talking about, marketing cost?

Rajiv Sharma: The marketing costs or investment in technology and initial launch costs.

Mihir Modi: So, we will follow the accounting as required by the accounting standards. There are costs like technology etc which are to be spread, a charge to the period in which they are incurred. There are certain other costs, if permitted by the accounting standards, maybe small amounts may get capitalized. But like I said, we will make sure that we follow the accounting policies. Our current amortization policy is very aggressive, for example, on the music business we amortize 50% of our acquisition, which are essentially lifetime acquisitions, in the first year itself. And the remaining 50% is done over a two year period. So, we will follow very, very aggressive write-off policies, even in cases without capitalized.

Rajiv Sharma: And lastly, if I can just chip in. Given that Amazon, Netflix, are putting pressure, they are trying to now have local programming. Is that putting any kind of pressure on your content cost at this moment, is it leading to any kind of inflation already?

Punit Goenka: No, Rajiv. As I said, the amount of content that they are making is a fraction of what we are making. As I just called out, we do over 360 hours of programming in a week. For anybody to start doing that, it is not an overnight game in my view.

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

Sanjay Chawla: My question is, if you can share your thoughts on how strategic the original content is for the success of the digital platform? And how much you would be investing and overall time frame there?

Punit Goenka: I think it is essential that you have some original content on the digital platform, whether it is only produced for digital platform or it is produced for multiple platforms is a question that one can ask. We will be investing in the original content for digital platforms, or what I like to call Digital-First content. The quantum, etc., again, we can talk to you about it in quarter two.

Sanjay Chawla: A related question is about a lot of this acquisition of digital rights which is happening from the likes of Amazon or even Netflix, particularly the movie rights. I mean, are there going to be exclusive windows for these digital rights on the online platforms before the TV premiere?

Punit Goenka: Well, I know some people are doing deals which gets them exclusive windows prior to television. Any such deal, we stay out of it.

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

Rohit Dokania: Just two questions. One is, can you talk about whether the DPO systems are ready enough to implement new tariff order, even if the courts give green light on 1st of September?

Punit Goenka: Very difficult for me to answer that, Rohit. I have not studied this thing. But I think that some of the DPOs have already started upgrading their systems to take care of this thing, but I cannot give you a blanket answer whether all are ready with their systems.

Rohit Dokania: Sure, I understand. For a long time, digital has been taking some share away from print advertising. But are there early signs of digital also trying to take away some share from TV advertising, or it is just too early to say that?

Punit Goenka: No, I do not think there has been any share away from television so far, because we talk about digital in a very generic manner. Large part of digital revenue that we are referring to is still search revenue. What revenue digital competes with television revenue is only in video advertising. So, therefore, that is still very small piece to even comment on.

Rohit Dokania: And just one more question, if I may just squeeze in. Could you talk about what kind of investments are you planning to do in FY18 and also possibly FY19 in terms of movie production?

Mihir Modi: I think giving a number is going to be difficult, Rohit. But we have shared our views and intent that movies are going to be an important part of our investment. And to that extent, it will remain aggressive.

Moderator: Thank you. We have the next question from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: My first question is again on the subscription revenues. Now with DD FreeDish continuing to add subscribers at a rapid clip and Phase-IV markets like to continue seeing some dominance from FreeDish, how do you view the outlook for subscription and for the industry as a whole over the medium term? What I mean to ask is will FreeDish adoption take away a meaningful upside that you expect from subscription revenue due to digitalization?

My second question is again a follow-up based on your initial remarks that you mentioned that you are exploring how to use proceeds from Ten Sports will be used for redemption of preference shares, so just wanted to understand your thoughts there and what are the hiccups to that and when will we know whether you are going ahead with that decision or not? Thank you.

Punit Goenka: So, on the DD FreeDish part, our view is that most of the DD FreeDish expansion is happening in Phase-IV. And Phase-IV, as I have said several times in the past, whatever households which have potential to upgrade have already converted through the paid DTH. In the Phase-III, Phase-II, Phase-I, I do not see DD FreeDish taking too much market share, because homes which are used to paid content will find it very difficult to move to DD FreeDish with the limited offering that DD FreeDish offers today, in terms of entertainment content. In terms of preference share redemptions, I think we will be in a position to take it to our board, along with the Q2 results.

Manish Adukia: Just a follow-up on the FreeDish part. I think the channel expansion in FreeDish is happening at a very, very rapid pace and for a lot of broadcasters, the window between the free-to-air and the Pay TV channels content has narrowed down quite a bit. So, in that sense, given lowering of differential between the content in Pay TV and free-to-air, do you see that DD FreeDish may see uptake even in some of the Phase-III markets, or even Phase-II for that matter?

Punit Goenka: If you look at the last two auctions that DD FreeDish came out with, they managed to sell only 3 frequencies out of the 50 that they intended to sell. So, it is not as if it is selling like hotcakes in any way from a channel expansion point of view. So, my position still stands on what I said.

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

Alankar Garude: My first question is on the response to the second Marathi GEC, and so how has been the response? And are we likely to follow this strategy in any other market?

Mihir Modi: So Yuva is picking up, it is showing reasonable performance. Of course, for it to match up to our flagship Marathi GEC is obviously going to be a mammoth task, but it has been created for a certain market and it has been received very well. It has a long way to grow. It will grow further and we intend it to expand the market in the Marathi space where we are already dominant. From perspective of other markets, I think these decisions we take as and when we go ahead and if we see a white space of that sort, we will not shy away from adopting a similar strategy in any other market.

Alankar Garude: **A**gain, continuing on the FTA adoption, I wanted to ask how lucrative is the FTA ad market right now? So, we have seen some industry experts talking about a sharp growth expected in FTA market. But with so many channels turning into FTA, is there any medium to long-term risk of saturation in the ad revenues for the entire market?

Punit Goenka: Well, ad revenues in our market are still pretty depressed compared to what it should be as a percentage of spend of the GDP. We are still hovering below 0.4%, where all comparable economies that are there would be in the range of 0.7%- 0.8%. So, I think it is still a long way to go before saturation takes place in the overall ad market, forget about just the television ad market in our country. So, I do not see that as a risk currently. The FTA ad market currently is in the range of Rs. 1,000 crores odd.

Alankar Garude: Sir, I think my question was more pertaining to the decision of switching from a pay channel into FTA. So, on one side you are losing out on subscription revenue and then on the other side, is the upside in ad revenue so lucrative right now? So just wanted to check on the balance right now.

Punit Goenka: No, it is not. It is not as lucrative to convert your pay channel into FTA, especially for a company like Zee.

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

Amit Kumar: Just a quick one on the subscription revenue bit. I understand that there can always be a quarterly volatility depending upon whether there are catch-up revenues or not. But even when I look at the full year number, the domestic subscription revenue against the mid-teens kind of guidance, the delivery has been just about 12% for the year. And this is beside the fact that Phase-III of digitization in some of the contract renewals definitely included Phase-III incremental subscribers, HD has been picking up, pricing has been on an upward trend. So, I mean, on a full year if you could just comment on what happened essentially, leaving aside the quarterly volatility aside?

Mihir Modi: Yes, Amit, the 12% or under 12% if you would have done it accurately seems low and you are right. And that is also because the sports impact, we lost about a month of sports subscription revenue from the full year that has been reported. So, if you strip out that to make it like to like, the growth is actually 13.5% for domestic business, adjusted for sports sale. And then the number will start looking better than what a below 12% number looks like. On the broader level, clearly the monetization of the Phase-III was expected to slowly get into our numbers and not happen as an overnight switch. It has started happening and that is why you are seeing the kind of growth that we have delivered. Of course, now it is another variable that is coming to the play, which Punit did address earlier in the call relating to the TRAI regulation on pricing, etc. But all else being the same, I think 13.5% like-to-like domestic growth is a satisfactory number for us.

Amit Kumar: Quickly on the advertising revenue, if you could just, and I do not know how you would sort of calculate this, but this 8% domestic ad growth, how would you look at this from a yield and from a volume perspective? What is the yield delta and what is the volume delta on a YoY basis?

Mihir Modi: I think this has always been a slightly kind of complex matter because in our business, as you would know Amit, the 'secondage' bit remains the same. There are three variables, not just the price and the 'secondage' bit, there is a third variable of viewership as well. So, it is difficult to kind of split that out, but we have not launched any large channels with large viewership in the last 12 months. And therefore, one can safely say that it has essentially come from price increases on the back of better viewership.

Amit Kumar: My final point was with respect to the increase in working capital. I think you had, in Q3, sort of guided for the fact that inventory would be higher because of film investment. It is just that the quantum is quite high. I mean, if you look at it year-on-year almost Rs. 360 crores kind of increase. This is when the older inventory that you had is also being run-off essentially, so the gross number would be like very significantly high. So, I just wanted to understand two things actually, one is that how much is this in relation to the TV business and how much is films? And if you could quantify two or three large projects which are included in this inventory please.

Mihir Modi: So, while we can get into the details off-line, but I think predominant number of increase is in films.

Amit Kumar: My apologies on this. You buy films for the TV business as well and now there is a film production businesses as well, that is what I was trying to understand.

Mihir Modi: Correct, absolutely. So, when I say films, it is the satellite right for the television business which is the larger chunk. The film production business is slowly scaling up, but thanks for the clarification otherwise we would have left a wrong message. So, the film acquisition for the broadcasting business, and therefore I will call it the TV business now that you clarified, is the largest chunk of this. And the film production business is scaling up, but clearly it is a smaller part of the increase that we have seen.

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

Kunal Vora: You already partially answered it, but it seems mobile video consumption has taken off very sharply in the last six months. Has there been any acceleration and shift towards digitalization because of that? And when do we see the digital advertisement becoming large enough to start hurting the division? That is question number one. And the second is, this quarter FMCG ad spends seems to be subdued, which sectors have seen high ad spends growth? And would you be able to share in the number for the quarter?

Punit Goenka: For the foreseeable future, Kunal, I think both digital and television advertising for video will be growing. While digital will grow at a higher pace than television, I do not see at least in the foreseeable future, where it will start eating into the TV pie.

Mihir Modi: So on the ad growth side, while the overall ad spend by FMCG seems subdued, there is no particular sector that jumps off in contributing to ad growth this year. Also, if you see the industry growth has been flat-to-negative for the television industry. And therefore, this fits in to the subdued FMCG ad spends growth as well. We have grown pretty much kind of in a balanced manner across sectors, like I said, on the back of our viewership gains that we had over the last few quarters.

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

Yogesh Kirve: Sir, can you give us a sense of what has been the aggregate growth in the number of television impressions? BARC universe has been expanding, can you give us a sense of what is been the like-to-like growth and how is that been over the last couple of quarters?

Punit Goenka: Can we take this offline? I do not think we have the subject matter experts in this room here. I think you will have to take that off-line with Bijal.

Yogesh Kirve: Sure. Secondly, regarding the ad growth for the quarter of 8.6%, so is this reflective of the industry growth as well or have you grown faster than market or any comments on that?

Mihir Modi: Yogesh, we mentioned that the industry for Q4, the television ad market has been flat to negative growth in the quarter. And compared to that, yes, our 8%-plus growth is certainly ahead of the market.

Yogesh Kirve: Can you tell us what were the key drivers and the key genres gained market share?

Mihir Modi: So, viewership in general, and regional viewership, in particular, has been contributors to this growth.

Moderator: Thank you. We have the next question from the line of Anand Krishnan from Kotak Infina. Please go ahead.

Anand Krishnan: Just wanted to understand the total proportion of your total subscribers who would actually be HD subscribers.

Mihir Modi: Sorry, didn't understand the question Anand.

Anand Krishnan: What proportion of your total subscribers would be HD subscribers is what I want to understand.

Punit Goenka: As an industry, the HD number stands at about 9 million odd, and we do believe that all 9 million will be consuming Zee content in some form or the other.

Anand Krishnan: So, for your subscribers what would be the ratio, is what I want to understand so that you could overbid and be on it.

Mihir Modi: The way it works is that in the market, as Punit mentioned, about 9 million homes have HD connection, and we believe we are present in almost all homes. I mean, I am just saying almost for the sake of almost, we are pretty sure we would be in all homes. So, our ratio is, you can assume is similar or the same as the market ratio. So, from the total household, 9 million are HD, and absolutely the same proportion for us.

Anand Krishnan: The second is with respect to the regulatory changes that you spoke about in countries like Bangladesh. I heard that there was something around in Nigeria as well. So, if you could just enlighten us about this and whether this is going to be a permanent change or it is going to be a temporary change? That would be helpful.

Bijal Shah: In Nigeria, the issue was that government had not allowed remittance in US dollar terms, and for that we have been working and I think we have almost sorted out that issue. As far as Bangladesh is concerned, we are still working with government, trying to convince them that this ban should be lifted. So, let us see how it evolves. The Nigeria issue has been sorted out.

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

Abneesh Roy: One follow-up on OTT, we are seeing ALT Balaji come out with a very India-focused content and very affordable pricing. And on the other hand, Hotstar is launching Sarabhai kind of fresh content. So, on both these what is your take, do you also plan to do similar strategy like fresh content first on OTT, or exclusively on OTT?

Punit Goenka: Yes, we will be coming out digital-first content and digital exclusive content as well.

Abneesh Roy: And your comments on ALT Balaji kind of experiment?

Punit Goenka: It is difficult for me to comment on somebody else's business strategy. Their content is pretty good.

Abneesh Roy: Sir, your ad growth of 8% is very good in the current context. What we are seeing is some of the FMCG companies, whose results have come out, they have cut down on advertising. And the digital ad spend for some FMCG companies has doubled in the last one year. So, in that scenario how is 8% growth still coming? So, if you could tell us apart from telecom, what else have driven this kind of growth?

Mihir Modi: Like we mentioned earlier in the call, I think for us the growth has come pretty much even across industries, there is no one particular sector that jumps off that has contributed to our growth. And I see the point that while FMCGs may have cut down overall on their television content, in Q4 we believe the industry FMCG spend has not grown. I guess it could also be a reallocation issue, it could also be that our viewership has attracted a bigger proportion of the FMCG spend, there could be a lot of reasons. But I think if I zoom out and give a macro view, clearly viewership is what is going to drive ad spend allocation, and the numbers that we have delivered are on the back of our viewership.

Abneesh Roy: Sir, non-FMCG should have then grown at 15% - 16% because FMCG is half of the portfolio, more than that. And if that has not grown, balance would have grown at 15%-16%, right?

Punit Goenka: No, see you are looking at FMCG, non-FMCG from an industry perspective. As we said that industry is actually flat to negative. So, when we are growing 8%, our FMCG has also grown, our other sectors have also grown. And as Mihir mentioned, there is really nothing which jumps out of the sectoral growth, and that is why we would not like to call out. This growth in Q4 is very similar to what we have seen in rest of the industry.

Abneesh Roy: One last one to Punit sir. &TV has done more than two years, so versus initial expectations, what are the hits and misses? Are you happy with the performance and the initial expectation that in 3-5 years the profitability will come, where do we stand on that?

Punit Goenka: I am never happy with any performance level. I always believe we can do much better. But having said that, I do believe that we are on track for the guidance on the quantum of investments on &TV and the timing of the same. So, we should be able to meet both those aspects in turning around &TV into a profitable business.

Abneesh Roy: It is 3-5 years, right?

Punit Goenka: That is right.

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