Zee Entertainment Enterprises Limited

Q1 FY21 EARNINGS CONFERENCE CALL

August 18, 2020

Moderator: Ladies and Gentlemen, Good Day and Welcome to Zee Entertainment Enterprises Limited Q1 FY21 Earnings Discussion. 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 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, Raymond. Good day, everyone, and welcome to Zee Entertainment's earnings call to discuss company's performance in Q1 FY21. Hope you all are well and staying safe. This is the first quarter of ZEE 4.0, and we are glad to interact with you all in a new format.

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.

We'll start with a brief statement from Mr. Goenka, followed by a statement on operating and financial performance by Mr. Gupta. We'll subsequently open the floor for questions. To ask questions, please join Chorus Call bridge provided in the webcast invite.

Before we begin the call, I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in conjunction of the risk that we face.

We'll begin the discussion now. Thank you, and over to you, PG.

Punit Goenka: Thank you Bijal. Good evening everyone and welcome to the brand-new avatar of ZEE – ZEE 4.0. During our last interaction, I had made certain commitments to all of you. I had said that this financial year will be special for the company as we begin the transformation in line with the new realities. This transformation is already underway, and I would like to start this discussion with several concrete steps that we have taken during the quarter to strengthen governance, enhance disclosures and provide granular details on important line items. I would also like to say that these changes just mark the beginning and you would see continuous progress on all the 5Gs of Governance, Granularity, Goodwill, Growth and Gusto, as we go along in this new journey of ZEE 4.0.

As I had promised earlier, we are committed to add 2-3 more members to the board by end of this financial year. All new directors would be independent and experts in their respective fields. Nomination and Remuneration Committee of the board will be screening potential candidates from the fields of media, law and finance. These changes along with the three new members we have inducted over the last few months will mean that we will have a strong board with expertise in all the fields relevant for Company’s growth.

During our innumerable interactions with the investor community over the last 18 months we had received several suggestions particularly on our treasury policy, investments and related party transactions. I am happy to announce that we have incorporated most of these suggestions and new policies have been formalized which have been approved by our board. These policies are now also available on our website for your perusal, but let me give a few highlights of some of these. Our new treasury policy allows investments of any surplus funds only in fixed deposit of a bank or in a mutual fund through liquid funds having scheme AUM of minimum Rs25bn. The new Related Party policy requires prior approval of audit committee for entering into any transaction with a related party. It also sets the criteria to determine whether the transaction is at arm’s length. As far as investments are concerned, the new policy lays down the framework for our investments and details the process of approval for consummating a transaction. I would also like to state that Board had already strengthened policies with respect to advance for content last year by linking it to achievement of milestones.

As you are aware that the Audit Committee had appointed an external auditor to further verify and validate certain transactions relating to content purchases, advances and related parties. This audit was completed a few months back and there was no adverse observation made by the auditor requiring any additional disclosures. As I had committed, a summary of this report is available on our website.

Now let me talk about three key initiatives that we have taken to enhance our disclosures which will add a layer of granularity to it. One, we have decided to publish our balance sheet on a quarterly basis as against the regulatory requirement of disclosing it semi-annually. Second, we are sharing additional details about ZEE5, which is an important business from Company's long-term growth perspective. During the previous quarter we had standardized our disclosure w.r.t. operating metrics and included the MAUs as measured by Comscore. Starting this quarter, we will also share platform's total revenue and investments at EBITDA level. Investment number largely excludes the cross-charge for content sourced from our other business and marketing on the network. Lastly, our content inventory and advances have been a matter of discussion over the last several years. To give a better understanding of both these line items, we have decided to share quarterly break-up of our inventory and content advances in four buckets – movie rights across businesses, original content for linear and digital business, inventory of movie production, music publishing and others smaller businesses and lastly, advances and deposits for content production and acquisition.

Cash generation for the Company has lagged the reported profits in recent years. This was solely on account of our aggressive movie buying strategy which has been well articulated in our investor communications since FY18. We were building movie catalogue for launch of ZEE5, regional GEC and movie channels and to further strengthen our position in the Hindi movie genre. ZEE5 now boasts of over 3,000 movies across 12 languages and our domestic broadcast business has recently launched 3 new movie channels in the regional space on the back of acquisition of movie libraries. After three years of aggressive acquisition of movies across languages and platforms, I am happy to state that the movie buying is set to significantly moderate starting this year. Accordingly, FY21 will see a decline in working capital tied in content, i.e. inventory plus content advances. As far as receivables from two key distribution partners are concerned, we have received payment plans for clearing their overdue amounts. The partners have been making payments as per these plans and overdue amount has come down during the quarter. We expect that overdue amount will continue to go down in coming quarters. This will enable us to improve our cash generation. Given the reasonable uncertainty that still exists with regard to advertising revenues for the year, we would refrain from giving guidance on cash generation for FY21 until Q2 end. That said, let me reiterate our commitment that starting FY22 we would deliver more than 50% PAT to free cashflow conversion.

Dear friends, this is what I have on ZEE 4.0 for now, and more updates will follow in the coming quarters. I hope these measures have met, if not exceeded your expectations. In this new avatar, Zee would single mindedly pursue excellence in all aspects of business operations. Our teams remain committed to delight consumers by creating extraordinary entertainment experiences for viewers across platforms. As we chase our target of becoming clear leaders in each of the verticals we operate in, we remain absolutely mindful of delivering this growth profitably and with a clear focus on cash generation. We would strive hard to meet investors' expectation on governance and disclosures and set new standards going forward. Today, with these initiatives we are laying the foundation of ZEE 4.0 and as we go along, we will continue to build on this strong foundation.

With this I conclude my opening remarks and request Rohit to take you through highlights of the quarter.

Rohit Gupta: Thank you Punit. Let me now run you through the operating and financial highlights of the business during the quarter.

Like every other business around the world, Zee was also impacted by the pandemic during the first quarter, both from an operational and financial perspective. With lockdown in March, outdoor shooting of new content was halted. We took several initiatives to serve fresh content to our consumers. Our teams created content from their homes during this period, a cumbersome exercise as it involves collaboration with multiple artists. We celebrated the 25th year of *SaReGaMaPa*, our iconic property, with shot from home episodes across the network which featured more than 200 artists. ZEE5 released 18 original shows and movies during the quarter. We also licenced third party content for our television and digital businesses. Our channels leveraged the vast content library of the network and dubbed shows from other languages which was fresh content for their audiences. ZEE5 also made a part of its premium content catalogue available to its free users.

Our teams also managed the operations seamlessly during this difficult phase, ensuring that our consumers had access to content. We shifted complex functions like Broadcast operations and engineering, editing, scheduling etc. from office to home. Broadcast Operations is the delivery engine of television network and its systems are operated from in-situ consoles, but our BoE Infra team developed remote clients whereby the systems could be operated remotely, including from home - a first of its kind step in the industry. Scheduling, which is a revenue sensitive operation, was shifted to remote working. Activities like editing, graphics, and audio effects were also managed from home using in-house Media Asset Management and edit-over-cloud solutions.

During the quarter, viewership across both television and digital went up significantly. Let me first start with some updates from the linear business.

TV viewership saw a massive jump in the initial phase of the lockdown. There was over 40% growth in total TV viewership and the daily reach went up by more than 10% to nearly 630mn. Although this has come down gradually, TV consumption is still substantially higher than pre-COVID levels. This reaffirms our faith that television in India is going to continue as the medium of entertainment for the masses.

Lack of original content also changed the distribution of viewership of the GEC category as movies and news gained share. This led to a drop in the viewership shares of all national networks, including ours. However, we have seen a sharp rebound in July and August as our GEC programming has almost gone back to pre-COVID levels. If we look at the last 4 weeks data, our market share stands at 19.2% versus 15.8% in Q1, higher than what it was prior to lockdown. And the same can be said for most of our channels. Hindi is one of the few markets where our performance continues to be below expectations, and we have already initiated changes in the programming line-up that should help get it back on track.

Now coming to ZEE5. MAUs and DAUs for the month of June were 39.7 million and 4.0 million respectively. Like all other broadcaster led OTTs, the QoQ decline was due to fall in the numbers of AVOD users as original TV content was not available during the quarter. However, the SVOD business saw a significant jump in MAUs, led by ZEE5's expanding library of exclusive content. As committed during the last earnings call, we have started sharing key financial metrics for ZEE5 from this quarter onwards. The revenue and EBITDA loss for the quarter was Rs. 949 million and Rs. 1.45 billion respectively. Ad revenue for the quarter was impacted due to unavailability of fresh TV content which is the primary driver for AVOD video views and revenue.

We launched the beta version of HiPi, our short video platform, few days back. HiPi is embedded within the ZEE5 app and will aim to capture the fast-growing consumer base for short video content and will also help increase engagement on the platform. We are confident that HiPi launch will propel ZEE5 into the next phase of growth.

As the timelines for opening of cinemas remained unclear during the quarter, Zee Studios decided to release its movie ‘Gunjan Saxena’ directly on an OTT platform. It is also exploring direct-to-digital release for another movie during the current quarter. Zee Studios is now also venturing into production of digital content for third party OTT platforms.

Zee music company added 6 million subscribers during the quarter and continues to be the second most subscribed Indian music channel on Youtube. Its music acquisition plans slowed down due to lack of new movie releases. As restrictions on large gatherings continue, Zee LIVE is ramping up digital event IPs.

Now coming to the financial performance. The revenue for the quarter declined by 34.7% YoY due to sharp fall of 64% in ad revenues. The lockdown in 1Q brought sale of all discretionary products and production of original content to a halt. These two factors explain the drop in ad revenues. That said, we have seen a sequential improvement in ad revenues every month after the relaxation of lockdown guidelines and resumption of fresh content on the network. As the festive season kickstarts towards the end of this month, we expect the recovery to accelerate. Our target is to grow ad revenues of both the third and fourth quarter of the year.

During the quarter, we have taken a hard look at all the costs of the Company. As you are all aware, Zee has one of the most optimized cost structures amongst peers which delivers industry leading margins. Even during this slowdown phase, which we believe is temporary, we have continued to invest in growth opportunities. Viewership has been growing on both linear and digital platforms, and the competition in both the segments remains intense. That is why we have retained our investments in content and marketing which will help us grow ahead of the industry as the economic growth recovers. The loss in advertising revenue was not fully offset by the cost savings during the quarter, directly impacting the margins. EBITDA for the quarter stood at Rs. 2.2 billion and EBITDA margins were at 16.8%. There is a notional fair value loss of 1.1bn due to change in market price of redeemable preference shares which has impacted the profits. The Company paid dividend of 580mn on preference shares during the quarter.

The cash and treasury investments for the Company increased by 3.1bn to 13.3 bn as on June 30 which includes 3.6bn of bank balance, 2.3bn of fixed deposits and 6.8bn of mutual fund investments.

Bijal Shah: Thank you, Rohit. This concludes our opening remarks. I request Raymond to start Q&A session.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Q&A session. The first question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Good to see the improved disclosures. First question is, can you give some sense on the advertisement outlook going forward? There will be two IPL tournaments in next 6 months. Do you see that impacting the spending on GEC and movie channels? That's the first question. And second one, if you can provide a broad cost structure for ZEE5, the Rs. 240 crore spending which you had this quarter, how much of that would be content cost? And whether there is any spending to Zee Entertainment, any payment made to Zee Entertainment? And what would be the external content acquisition?

Punit Goenka: Thank you, Kunal. On the advertising side, as Rohit mentioned, our outlook is quite positive. We do expect growth to be back in the second half of the year. We are targeting growth starting from Q3 itself. We have factored in the IPL into the same number. I wouldn't want to comment on what IPL would do and what the rest of the industry would do, because it's a very normal feature now in our life, except that it's partly going to be two seasons in the same year. But despite all those things, we are going to target to get growth back in the H2 over last year.

On ZEE5 cost structure, I think currently this is the level of disclosure we are comfortable giving you all because of competitive reasons. As I mentioned in my opening remarks, the internal cost of content as well as marketing has been knocked off, so all the revenue and the costs are all external costs in that line item.

Kunal Vora: And this is the stable level or how should we expect the cost structure to move? What kind of revenue growth you're seeing in ZEE5?

Punit Goenka: Well, it's a business that's just starting its growth trajectory, Kunal. So very difficult to project numbers at the granularity that you want from day 1. So have some patience on that. In terms of cost line, I think it's pretty much in line. Bijal, you want to take this?

Bijal Shah: Yes. Kunal, so we have been saying all along that ZEE5 has already reached the desired level of investments. So going forward, we expect investments to remain stable. However, we expect, over the years, revenues to go up. And probably, we'll see positive leverage over the years. But at this point of time, we do not expect increase in investments at EBITDA level.

Moderator: We take the next question from the line of Rohit Dokania from IDFC Securities.

Rohit Dokania: A few quick ones from my side. Thank you for the sort of ad guidance for H2. Punit, can you also talk about the ad recovery that we are seeing in July and maybe the early month of August, if possible?

Rohit Gupta: Can you repeat the question?

Rohit Dokania: Just wanted to know what kind of recovery we are seeing in the month of July and early month of August in terms of ad revenue. So let's say, is it down like 20%-30%, if anything would be helpful.

Rohit Gupta: So, like I said, we are already seeing green shoots and the recovery has already started. The advertisers are coming back, and consumer spending has started. As the consumer spending starts, the advertisers are coming back. So July, month-on-month, we are seeing improvement in our ad revenues. And I would just reiterate that we expect growth to come back in the H2 of this year.

Rohit Dokania: So Punit, also is it possible for you to give any sort of domestic subscription revenue guidance for this year, given I think that there is NTO 2.0 order that is expected on the 24th if I am not wrong?

Punit Goenka: So domestic subscription revenue, definitely, when we were planning, we had factored in several price increases on bouquets or channels into our plans, and therefore the guidance I had given earlier. Since NTO 2.0 and the stay that the courts have put in, we have not been able to take those hikes. And so we do expect the domestic subscription growth will be moderated for the current year. I will also state that NTO 2.0, whenever is implemented, the impact will be very short term to the company, because we do believe that our content has significant strength to get consumption pull. But our ZEE5 growth on subscription will aid the growth and therefore, we should be alright there.

Rohit Dokania: And the other piece in terms of, will you be in a position to disclose the real time losses, including the sort of investments that ZEE5 is making in terms of those content and also sort of marketing costs, etc.?

Punit Goenka: I think I've already stated that this is the disclosure we are giving.

Rohit Dokania: And lastly, I might not have caught it rightly. Just to sort of recheck it, so the working capital investment on the content side would sort of decline on a Y-o-Y basis for FY21 versus FY20. Did I get it right?

Rohit Gupta: Yes, absolutely, Rohit.

Moderator: The next question is from the line of Rajiv Sharma from SBICAP Securities.

Rajiv Sharma: Question was on *Gunjan Saxena*, I watched it, it was a great film. But despite having ZEE5, why did we let it go to a competing platform? Because my second question exactly pertains to that. We have 18 OTT originals, and that's maybe my analysis or perception that 18 originals in quarter look big, but it is not able to create the same visibility that original at Amazon or a Netflix is able to create, visibility or euphoria or whatever you could say. The third was around, what is the benchmark when it comes to the back-ended...

Punit Goenka: Your voice is completely garbled. I can only hear parts of it. Let me answer what I've understood. Then you can go on to ask whatever else is left. Is that okay?

Rajiv Sharma: Yes. Sure.

Punit Goenka: So *Gunjan Saxena* is a film that is a co-production with another studio. And because of the pricing that the competition platform was willing to offer, our ZEE Studios and our ZEE5 business felt that this would not be in the economic interest of the Company as overall. So we took a very-very fundamental decision that we would syndicate this content to Netflix. We do these decisions from time to time based on the best interest of the company. And that has been our strength in the past and will continue to be our strength going forward as well.

As far as the second part, which I understood, is that apparently, the original content on some of my competing OTT platforms make a greater euphoria than the original content that we produce for ZEE5. That's a very subjective comment, in my view. If you can share data of the competition OTT with me, I will share data of my OTT with you.

Rajiv Sharma: No, I was going by the AppAnnie data, which talks about the users and the usage. So based on the data for the last few months…..

Punit Goenka: Sorry, Mr. Sharma, Bijal, can you understand?

Moderator: Mr. Sharma, we request you to call us later. We can't hear you. We will move to the next question. The next question is from the line of Jay Doshi from Kotak Securities.

Jay Doshi: Thanks for additional disclosures. A couple of questions from my end; first is, you have indicated in the press release that you have redrafted financial policies and uploaded it on website. I haven't had a chance to find it as yet. Maybe I'll look at it later. But other than cash and treasury investments, are there any other important aspects or elements in that policy? If so, could you please elaborate?

Punit Goenka: So, the treasury policy covers all aspects of excess cash and their investments. The investment policy relates to any equity investment/asset purchase that the company wishes to do, which would be more strategic in nature. The related party transaction policy covers as the description suggests. So, these are the broad descriptors there, Jay. The policies are already uploaded on our website under the Policies section of the Investor Relations section.

Jay Doshi: Sure, I'll look up. Second question is, could you give a ballpark guidance on what would be the gross investment in movie rights, both satellite and digital, in the current year? And what will be CAPEX towards SugarBox and any other CAPEX if you're planning?

Punit Goenka: So I'll take the first one. The inventory for the business going forward, especially from movies perspective, as I had suggested earlier, will be well within what we pass through the P&L of the current financial year. It will be much lower than that, I can tell you that. SugarBox, the projects are significantly delayed due to the COVID situation, but I'll hand over to Rohit to cover the CAPEX part of the question.

Rohit Gupta: Thanks, Punit. So in terms of CAPEX, we don't see any incremental CAPEX during the year. So our CAPEX, whatever has been there in the last few quarters, I think the same intensity will continue. And like Punit mentioned, the SugarBox implementation is, in any case, delayed because of this COVID and because we are not able to get the agreement with RailTel. So that is moving to the Q4. So I don't expect major enhancement in CAPEX.

Moderator: The next question is from the line of Rajiv Sharma from SBICAP Securities.

Rajiv Sharma: Maybe one question again. Can you hear me now?

Punit Goenka: It's quite garbled, Rajiv, for some reason. I don't understand.

Moderator: Mr. Sharma, we request you to disconnect and maybe call us back. We can't hear you very clearly. We'll move to the next question. The next question is from the line of Sachin Salgaonkar from Bank of America.

Sachin Salgaonkar: My question is regarding EBITDA margin. Punit, this quarter last year, EBITDA margin was almost double of the EBITDA margin what we're having right now and it's understandable, given the impact on the revenue in a high fixed-cost margin business. But for FY20, I think 2-year guidance is that the margins would be back to 30%. But how should we look at the EBITDA margin for, let's say, second half or the remaining 3 quarters for this year?

Punit Goenka: Well, certainly, there will be improvement in the EBITDA margin compared to Q1 that we have declared. So right now, because the uncertainty levels are still quite high, I would be better positioned to guide you at the end of Q2, but it will certainly be better than Q1.

Sachin Salgaonkar: So let me put it the other way. I mean, you, in your opening remarks, had mentioned that ZEE has an industry high margin, on a consistent basis you guys delivered that. Will that be possible to deliver in this FY21? So we are not expecting more like a 32% margin. But should we see a new normal which is close to 20%-25% or even that looks difficult?

Punit Goenka: Bijal, you want to take?

Bijal Shah: We do not want to explicitly guide you on margin for FY21. I hope you understand that FY21 is a very peculiar situation and the first quarter is gone. First quarter, our margins are hurt because of the COVID. And second quarter also there will be an impact on margin. But you will see sequentially, every single quarter, margins should improve and inching back to 30%. And FY22, again, I mean if things are normal, we should be 30% or above 30% margin. At this point in time, it's a bit difficult to talk about margin for FY21. That said, I mean, for the full year also, margins would be substantially better than what we have delivered in 1Q.

Moderator: Next we have Mr. Rajiv Sharma from SBICAP Securities.

Rajiv Sharma: I've dialed in again. So quickly, Punit, I wanted to understand what is your benchmark when it comes to back-end at ZEE5, in terms of how much you're going to invest in the back-end and the network part and the UI part of ZEE5? I just want to know your thoughts about it.

And second, the space is crowded on the OTT side, so how do you plan to be differentiated on content? What are the kind of experiments you want to take here?

Punit Goenka: So on the back-end side, Rajiv, I think we have to be prepared to learn and be the best in class for any product that is a consumer-facing product. At the end of the day, that's what the consumer wants, and that's what we want to deliver. And whatever resources it may require, it's a long-term business for us, we are open to that investment as and when we need to make that.

In terms of your second question, can you just repeat that one again, please? Sorry.

Rajiv Sharma: My question is that Amazon and Amazon Prime and others, so this space is crowded, and there is a lot of content coming in. So how do you plan to differentiate? Because you have a TV business and you have an OTT business and you are listed. You cannot do what they do. So how do you plan to differentiate? What are the kind of experiments you're planning to do here?

Punit Goenka: Well, fortunately I have been in the TV business with very few listed companies there also. And we've managed to deliver in a crowded space, at least it used to be crowded during my early days of the TV business. I think it's a matter of finding our own market that we want to operate under. It is a crowded market, as you're rightly saying, but given our understanding of the consumer, the way we treat our consumer from a mass market perspective will benefit us even in the OTT space. And therefore, our differentiation at the end will be the product, which is part of your first question, and we try to do that through languages and things like that. And secondly, of course, ultimately, it's going to be content. So we have to create content, which is differentiated and sets us apart from anybody else, which will help us deliver in the long term.

Rajiv Sharma: Just a small follow-up on the back-end. Is there any number which you can provide in terms of how much you've so far invested in the back-end and what do you plan to do on a run rate basis?

Punit Goenka: No. I think the EBITDA margin guidance takes into account all those factors, Rajiv. So I think that much level of detailing is not competitive-friendly for us.

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

Sanjesh Jain: I got three questions. First, on the content cost, your programming cost, it has dipped significantly this quarter, we can understand there was no fresh content. How should we see for the next quarter? Have you reached the pre-COVID level kind of programming? And given the last two quarters has been quite volatile in the content cost, what should be the sustainable level of content should we see from Q3 onwards? That's the first.

Bijal Shah: So Sanjay, on content cost, we will go back largely to normal run rate in Q2 itself, because almost all channels have started going back to normal production level which was before COVID, except for Tamil, which has started only on 27th of July. So largely, you should see normalization of content cost coming in Q2. And after that, I mean, it will be similar to what we have seen in the past. Now if we see overall content cost, I do not see any change in overall content cost, barring what all one-offs costs which we had taken in the last year. Content cost-to-revenue ratio might go up this year because of the fact that we have seen a fall in revenue. And the impact on advertising revenue will be there in Q2 also. So in percentage terms, it will go up. But you can think of content cost going back to Q3 levels of last year. And on that, some inflation, you can add on that.

Sanjesh Jain: Two questions on the press disclosure to just understand a bit more about it. First on ZEE5, the revenue includes both subscription revenue as well as the advertisement, which runs on the app, is that understanding right?

Punit Goenka: That is correct.

Sanjesh Jain: The second is on the content breakup. I just wanted to understand when we say shows in the content breakup, what does it exactly mean?

Bijal Shah: So shows mean that all the shows which are there on television network, and all the shows which are all in the ZEE5 platform. Now if you go through our accounting policy for amortization of shows, what happens is that on television, for all the fiction, 80% of the cost is charged to P&L on telecast. So, remaining 20% comes in the second year and so that carries on as inventory.

Similarly, if we look at digital, what happens is that we amortize 80% of the cost in year 1. So, let's say, if we release a show in the month of March, only around 6% to 7% of the cost would have gone through P&L, but rest will carry on to the next period, and it will get amortized in the next period. And the remaining 10% will go to the next following 2 years.

So that is the cost which is actually sitting there. And there is also cost which is in international business, because international business also does some amount of original programming, and the policy for amortization there is also similar. So, all these costs put together forms the content cost, which is classified under the header of shows.

Sanjesh Jain: May I just clarify why I was asking this, because in FY20, given that we exhausted all the inventory, so there will be no fresh inventory and just the pending amortization cost, which is reflecting in the shows. Is that understanding right?

Bijal Shah: Largely, yes, but we have also, as Rohit pointed out in his opening remarks, that there was no original shows, but we were actually trying to serve some fresh content to our consumers. And that is why we had also syndicated a lot of content. So some of that unamortized amount would be there, some would have been charged to P&L. And also, we were actually shooting a lot of content from home. So as Rohit pointed out, SaReGaMa flagship property, it was shot from home, and there were more than 200 artists, and it was actually telecasted across network. So it was a very big property for the quarter. So it is not that we have not spent anything on fresh content during the quarter.

And if we move on to digital business, we have actually not stopped releasing or we have actually not scaled back despite the impact of COVID. So ZEE5 continued with its normal programming and we released 18 shows and original movies during the quarter. And that is also reflecting in the closing inventory for Q1, which is disclosed in the presentation.

Sanjesh Jain: Just one follow-up question. So this number shouldn't go up as we build more inventory for normalization of inventory, that we shouldn't build it, right?

Bijal Shah: So, I would say that what we have guided is, for entire year FY21 we will not see any increase in inventory plus advances, it should go down. Now quarter-to-quarter, it depends. I mean, one of the quarter it can go up a bit, and that would be on account of the fact that it depends upon when the movie libraries are coming up for renewal, when we get movie library in one market or another market, when one of the big movie releases, and that's we are buying. So due to which, you can see movement, which is not linear during the year. That said, for the full year FY21, we'll see a decline in inventory plus advances.

Moderator: The next question is from the line of Alankar Garude from Macquarie.

Alankar Garude: Punit and team, appreciate the improved disclosure. Firstly, is it possible to share how does an average ZEE5 viewer split his time between watching TV re-runs, movies and original shows? I'm asking this because while you mentioned that all broadcast OTT platforms also saw sequential decline in user engagement metric. The drop, at least the numbers which you have reported for ZEE5, the drop seems a bit steep.

Bijal Shah: So on how the viewing time is split between different categories of shows or different categories of content, it depends upon what kind of subscriber you are talking about. So AVOD subscriber would be primarily or largely consuming only the shows which are coming from the television network. Because if you look at our AVOD platform, the most important content, which is available free to the viewer, is our television content. Beyond that, there is news and there are some other parts of content. But primarily, AVOD views and AVOD MAUs are driven by the television content at this point of time. So if I look at AVOD subscriber base, I mean, it will be overwhelmingly television content.

When we move on to SVOD, I think almost 70% of the consumption comes from movies as well as original content which is sitting behind the paywall. So even those SVOD consumers, they see around 30% kind of content, which is coming from television.

Alankar Garude: Second question would be what was the rationale behind the change in structure for the core subsidiaries, putting them under one wholly owned subsidiary?

Rohit Gupta: So basically, we are trying to make the whole structure leaner, and that is why this rationalization of subsidiaries, trying to bring in operational efficiencies.

Alankar Garude: The third question will be any timelines which you can share as far as getting the total amount from the sale of overseas funds?

Punit Goenka: The deadline for that is September, and we are quite hopeful of getting it within September month.

Alankar Garude: And one last question, if I may. Punit, sector-wise, if you could throw some light on which sectors are doing well and which are lagging currently on the advertising side?

Punit Goenka: So for us, as you know, FMCG is the largest sector of advertising that we get. So that is the first one that has started moving for us to have any semblance of growth coming back. Having said that, other sectors, Bijal, do you want to cover?

Bijal Shah: If I look at initial days, I mean, almost all discretionary companies had completely stopped advertising. And it was primarily, say, in the month of April, it was dominated only by FMCG. So as the things have progressed, FMCG has been scaling up their investments. But on top of that, we are seeing that discretionary categories like auto and handset and all are coming back. But primarily, it is right now FMCG, where the rebound is strong. And as the festive season kicks in, we would expect all other categories like telecom, consumer durable, auto and e-commerce to continue to increase their investments. And those are the things which we are seeing right now. And on the basis of that, we are guiding that we will see an increase in acceleration in advertising growth starting September, and we'll see significant improvement, and we are targeting growth in the third quarter and fourth quarter individually.

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

Yogesh Kirve: So sir, can you provide long-term outlook on the inventory and the related advances? Because in FY21, we probably won't have too many film rights to acquire because of the suspension of new production activity. So from long-term perspective, what do we anticipate, whether the inventory growth would be in line with your revenues or possibly lower than revenue growth, at least for some years, so any color on that?

Punit Goenka: So the numbers, Bijal will provide you, Yogesh. But let me just explain to you, when we acquire film libraries, generally, what our split of acquisition would be in terms of rupees or dollars. 30% will go towards the new films or blockbuster films that we are acquiring in the year of production or even maybe a year before the production. Almost 60% to 70% of our acquisition is for old library films, because that's what keeps the engine of the broadcast business going in the long term. So from that perspective, it's not apples-to-apples comparison. But Bijal, do you want to give some more color?

Bijal Shah: So Yogesh, I mean, as Punit pointed out in his opening remarks, that last 3 years were different years where we were actually building libraries for several products, which included regional movie channel as well as ZEE5. Now we are not launching any major product going forward, because at this point of time, there is really nothing on the horizon, which would require significant augmentation of our movie library. That said, library purchases as well as library renewal as well as some buying of new movies will continue.

So when we are talking about inventory, going forward, probably what one can factor in is that whatever is being charged to P&L in terms of amortization, that is the kind of budget which is there for movie acquisition. So, at this point of time, I would not like to venture out and give you exact guidance for FY22, FY23. That said, very clearly, what we are looking at is that inventory remaining stable. And if there is anything, which is materially changing, then we'll come back to the street and explain that. But at this point of time, we really don't see why we should be spending much more than what is passing through P&L.

Yogesh Kirve: These comments were quite helpful. The second question I had regarding the receivables. Obviously, receivables were down in the first quarter, understand partly because of the weaker revenue. So by the end of this year, do we anticipate reaching to the receivable days, which existed about 2 or 3 years back? Do we see that level of normalization based on whatever deals we have with partners that we referred to earlier?

Rohit Gupta: We've been really working on the collections. And while the receivables went up last year, I think we will see as things and as COVID and all other things settle down, we will see our receivables coming down. And yes, in the coming quarters, by end of FY21, our receivables should be in line with what they were there in the earlier years.

Yogesh Kirve: And finally, just a clarification. Regarding our balance sheet, you have said, the cash, loan and other investments stood at Rs. 13.2 billion. So just need a clarification, this mainly comprises of cash and investments, and there were no loans. I understand there were no loans in March '20. So about June '20, this is mainly cash and investments?

Bijal Shah: Yes, absolutely. There is no loan. There is no ICD, there is no loan.

Moderator: Thank you. The next question is from the line of Karan Taurani from Elara Capital.

Karan Taurani: My first question was, I don't know if I'm repeating this, but can you give some kind of sense on possible syndication that we will include that in ZEE5? And ballpark as a percentage, how big or small would that be?

Bijal Shah: Sorry, I didn't understand your question.

Punit Goenka: Syndication revenue.

Bijal Shah: So first part, I could understand, I'm just replying to your first part. See, as we said that there was one direct-to-digital release, so that direct-to-digital release is captured in syndication revenue.

Punit Goenka: I think the second part...

Karan Taurani: If ZEE5's revenue, say, is about whatever Rs. 97-odd crores for this quarter, how much of that would be because of ZEE's content getting syndicated to third-party platforms? That was my question. Will you include that in ZEE5 as well? Or ZEE5 is only AVOD and SVOD revenue primarily?

Bijal Shah: Yes. So ZEE5's revenue are coming only from two things: number one, advertising revenue, which is on the basis of impressions served by ZEE5 on its platform. There is nothing in advertising revenue, which is coming from outside of that. And as far as subscription revenue is concerned, there are two sources. One is that our B2B deals with telcos and other players in digital ecosystem. And the B2C part, where the consumer is directly paying to us for the subscription. And there is really no other revenue, which is accruing to ZEE5.

Karan Taurani: So the syndication part of ZEE's channels going to other OTT platforms, other third-party, would be separately, right? It would not come into the ZEE5 revenue?

Bijal Shah: So we are...

Punit Goenka: That is correct.

Bijal Shah: Yes, but we are not syndicating any ZEE network's content onto any other OTT platform.

Karan Taurani: And second question would be on Zee Anmol. So it's come back to FTA, and we've seen a sharp surge in terms of the viewership share. Now you did lose out a lot of advertising money last year, and the underperformance, one of the biggest reasons for underperformance was Zee Anmol. Now how fast can things come back on track? And what kind of outperformance can we expect because of Zee Anmol coming back to FTA on the advertising front?

Punit Goenka: I think overall performance on the advertising has to improve for even Anmol to catch up, because as you will understand and recognize that Anmol offered on audience base, which was not available in the pay ecosystem of the linear businesses. But from a consumption point of view, as and when the consumers are available on either of the platform, the advertisers will come back. So I don't think it's unique to each other, yet complementary.

Karan Taurani: So, what kind of subscription revenue growth do you expect for this year, excluding ZEE5? I mean, you did report this quarter a 6% number. But if this commercial thing continues and even if the lockdown extends and if the restaurants and the shops don't open up, what is the ballpark number of subscription revenue growth this year, excluding ZEE5?

Punit Goenka: Let me leave it at that it will be moderate and lower than what our guidance was in the earlier part. But certainly, it (revenue) will be ahead of what we declared in the last financial year.

Moderator: We take the last question from the line of Jay Doshi from Kotak Securities.

Jay Doshi: Now if I actually read into or incorporate all your guidance, which is potentially ad revenue growth in the second half of the year, negligible CAPEX related to SugarBox, the reduction in working capital from the perspective of you'll probably invest less than what you amortize in inventory this year, and you've already seen reduction in receivables in the first quarter itself.

So ballpark, even based on these assumptions, your EBITDA for the year should somewhere be in the range of Rs. 1,500-1,800 crores, depending on how sort of the year pans out. You have Rs. 300-400 crores tailwinds from reduction in working capital. So your operating cash flow before tax should be close to Rs. 2,000 crores. And if cash tax outgo could Rs. 400 crores, and with negligible CAPEX associated to SugarBox, I think you should comfortably be generating free cash flow of Rs. 1,200-1,300 crores this year. Is that right understanding? And if so, then why is it that I've not heard you reiterating your free cash flow guidance? And even your earlier free cash flow guidance of 50% of PAT looks very, very conservative to me, unless and until you are calculating also pertaining to RPS - in your free cash flow.

Punit Goenka: Yes.

Bijal Shah: So Jay, first of all, you have not taken into account investments in, I mean, so normal CAPEX. So it is not that we'll not be doing any CAPEX if SugarBox is not there. So there will be CAPEX, which you have not factored in.

That said, I mean, at this point of time, what we are saying is an estimate. We do not want to venture out and estimate and say that, okay, definitely, advertising growth will be something like that. And that's why we are saying that in Q2, we will be guiding when the things become clearer. Beyond that, I mean, we would not like to right now talk about exact free cash flow guidance and probably run you through the model, I mean, that probably best done by analysts. But when we are talking about FY22 also, if you read carefully what our guidance is that 50% plus or more than 50% free cash flow. So, we'll keep updating street if there is any change. But 50% minimum is what we are committing to and not that it is maximum.

Punit Goenka: And that is as you rightly said on the payouts of the RPS, etc., all those are factored into that, Jay.

Jay Doshi: So when you compute free cash flow, it is considering after Rs. 400 crores of outgo pertaining to RPS?

Punit Goenka: Yes.

Jay Doshi: The idea of asking this question was that there seems to be a little bit of disconnect between your free cash flow guidance and guidance associated with balance sheet and working capital and expectations on advertising revenue growth. But if you are factoring in RPS, then it partly explains that.

Moderator: Thank you very much. We will take that as a last question. I would now like to hand the conference back to Mr. Bijal Shah.

Bijal Shah: Thank you everyone. Thanks for your interest in the company. We hope you liked the new format of interaction. If you have any feedback or any follow-up question do reach out to Investor Relations team. Thank you, and stay safe.

Moderator: Thank you very much. On behalf of Zee Entertainment Enterprises Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen you may now disconnect your lines.