Zee Entertainment Enterprises Limited

Q3FY21 Earnings Conference Call
February 4, 2021

Edited Transcript

MANAGEMENT:
Mr. Punit Goenka – Managing Director and CEO
Mr. Bijal Shah – Head, Corporate Strategy, FPA and Investor Relations

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Zee Entertainment Enterprises Limited Q3 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 opening remarks by the management. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Bijal Shah: Thank you Janice. Good day, everyone and welcome to Zee Entertainment's 3Q Earnings discussion. Hope you all are well and taking good care of yourself.

We have today with us our Managing Director and CEO, Mr. Punit Goenka to discuss the performance of the company for the third quarter of the FY21. Unfortunately, our CFO, Mr. Rohit Gupta, had family emergency due to which he had to rush to Delhi, and he would not be attending the call today. This is the reason we are unable to do this on a webcast as we have been doing for the last couple of quarters. We will start with a brief statement from PG and we will subsequently open the floor for questions and answers.

Before we begin, I would like to remind everyone that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in conjunction with the risks that we face. We will begin the opening remarks now, over to you PG.

Punit Goenka: Thank you, Bijal. Good evening everyone. It is always a pleasure to connect and interact with you all. Since this is the first time that I am speaking to you in the year 2021, let me begin by wishing each one of you a wonderful year ahead. With all that we have together experienced in the previous year, there is certainly a strong level of collective hope and positive energy across, and I am most certain that this new year would be a great one for all of us.

With the sharp and steady decline in the COVID-19 cases over the last couple of months, coupled with easing restrictions, the process of all aspects returning to normalcy has certainly accelerated, both in terms of our day-to-day life and in terms of the overall economic activity. To add to this, the vaccination drives which have already begun across the country, give us the hope and confidence that as we step into the next financial year, the chapter of pandemic will be behind us. Indian economy at large is quite resilient, which is evident from the robust growth reported by companies across sectors and the encouraging outlook shared by most of them. And as you all must have noted, this is despite an unprecedented first half decline experienced across the board. Even for us, the advertisement revenues have returned sharply to positive growth trajectory in the third quarter of this financial year. Our advertisers are seeing a strong revival in demand, with the product launch cycle that was stunted by the pandemic, witnessing a strong rebound. The blend of growth-oriented policies, multi-year low interest rates and the Country's ever-expanding consumer base, will act as a strong catalyst for growth going forward.

During the lockdown, content consumption witnessed a sharp spike, reinstating the fact that content is an indispensable part of our daily life. In India, content consumption has been in a secular growth phase across platforms and the same is likely to continue. We firmly believe that the current digital consumption has only scratched the tip of the iceberg and that there is an immense potential for the total addressable market to grow multi-fold. While television continues to be the biggest entertainment medium, the sheer fact that over 100 million households are yet to buy their first television sets, speaks a lot about the potential and growth prospects of this industry.

We would like to achieve a dominant share by capitalizing on this growth opportunity which is going to unfold over the next decade or so. As you all might have noted, while articulating the ZEE 4.0 strategic approach, I had spoken about 'Growth' being one of the key pillars of this new journey. Over the past six months, we have been consistently working to devise a 5- year growth map for the Company. After a rigorous exercise and internal deliberations, we have set internal targets, in terms of the time and entertainment share that we as a Company must garner in the next 5 years. To achieve these targets, there would certainly be a substantial increase in our investments across digital, television and movie production businesses.

I would like to elaborate this point further, by speaking about these 3 business verticals. Let us start with digital - For ZEE5, our ambition is to make a leading OTT platform, not just for India, but for the South Asian diaspora across the globe. Much like our broadcast business, we will be following a multi-lingual approach, ramping up the original content production across languages. As more and more viewers join us on the digital platforms, it would be imperative for us to raise our investments in order to cater to their unique tastes and preferences. The expansion in content offering will be supported by parallel investments in marketing and technology, to improvise the overall consumer experience.

Moving on to our broadcast business - our aim is to consistently be India's number 1 entertainment network. As you all must have noted, we have already added 6 new channels to our network over the past 14 months. While the expansion for the linear business is almost complete, we might still see a few launches in the coming years. The viewership of our network has seen some decline over the last 1 year and to gain back the leadership, we plan to enhance our spends in the Hindi speaking markets as well as few regional language markets.

Movies business on the other hand, has been an integral part of our growth story. We re-entered the movie production business few years ago, with an objective to develop a profitable and scalable model. Like any content business, even we had our share of success and failure; but that said, on an aggregate basis, the performance has been satisfactory. We now plan to increase our annual movie releases to 35-40 across 6 languages, from the current number of 8-12 releases a year. This would also have a flywheel effect for our digital, broadcast and music businesses.

To summarise the points, our investments in content would see a hike in the FY22. This phase would be somewhat similar to what we experienced around a decade ago, wherein our investments in regional markets did temporarily impact our EBITDA margins, but at the same time, it also enabled us to grow ahead of the market for many years. The investment decision will have an impact on our margins, working capital and cash generation. Our business plan for the coming year would be finalised during Q4 and we would provide a granular guidance on these line items, during the fourth quarter investor dialogue.

Now let me run you through the operating and financial highlights for the quarter.

After the disruption faced due to the unprecedented economic slowdown in the first half, our business returned to near normalcy in the third quarter led by strong resurgence in consumer demand across categories. Advertising witnessed a sharp rebound as sale of products across all categories saw a strong recovery. With the lockdown easing across the country, people began to spend more time out of their homes leading to normalization of TV viewership to pre-COVID levels. While movie genre had gained massively during the first half, the category suffered some fatigue due to lack of new content and saw a drop in the viewership share which benefitted the GEC genre.

During the quarter, we maintained an all-India viewership share of 18.2% and continued to be India's #2 TV entertainment network. Continuing with our strategy of diversifying our content offering for the consumers and going deeper into regional markets, we launched two channels – *Zee Zest* and *Zee Vajwa*. While *Zee Zest* is a lifestyle channel, *Zee Vajwa* brings the best of Marathi music to our audiences. With this, we have introduced 6 new channels in the market over the last 14 months, significantly bolstering our offering to the consumers. All of our new channels have started on a strong footing and will continue to strengthen our network share going forward. During the quarter Zee TV, Zee Bangla and Zee Keralam improved their respective viewership shares and the Hindi movie cluster maintained its number one position. However, we lost leadership in Marathi, one of our traditionally strong markets. We are working towards fixing the gaps which we have identified in our content offering and we hope to see the results of the same in the next couple of quarters.

Now coming to ZEE5 – the platform's global MAUs and DAUs for the month of December as per our internal data analytics were 65.9 million and 5.4 million respectively. During the quarter, ZEE5 released 20 original shows and movies. With close to 200 original shows released since launch, ZEE5 now has the biggest library of Indian original content which will help in ramping up the paid subscriber base, as we go forward. ZEE5 also released 7 movies on our pay-per-view platform - ZeePlex, which enabled consumers to watch some of the new movies from the comfort of their homes. The revenue and EBITDA loss of ZEE5 for the quarter was Rs. 1.2 billion and Rs. 1.8 billion respectively.

Zee Studios, our movie production and distribution arm took the lead in the efforts to normalize movie going habits. Our Hindi movie 'Suraj Pe Mangal Bhari' and Telugu movie 'Solo' were the first to hit the cinema theatres since lockdown in the respective markets. Zee Music Company added over 5 million subscribers during the quarter and continues to be the second most subscribed Indian music channel on YouTube. The label witnessed a 50% growth in video views on a YoY basis.

Now coming to the financial performance. Before I get into the details, I would like to call out two things that you would have seen in the financials. This quarter we have struck a content syndication deal worth Rs. 5.5 bn, which has led to an extraordinary jump in the other sales and services revenues. Inventory worth Rs. 4.7 bn associated with this transaction has been charged to our profit & loss account leading to a spike in our operating cost. Other aspect is that due to internal restructuring of business, a part of our music subscription income will now be reported as part of the international business from this quarter onwards, which will explain the jump in the subscription revenue. I will talk about the financial performance excluding the impact of these two.

The revenue for the quarter grew by 6%, a sharp improvement from 19% decline that was seen in the last quarter. Like I had said earlier, advertising in domestic market saw a strong rebound which led to a 7.5% growth YoY. Domestic subscription revenue saw a like to like growth of 9.3% YoY which was driven by both ZEE5 and the television network and partially helped by a lower base. Like we had mentioned in the last quarter, due to the lingering uncertainty on NTO 2.0, our subscription growth this fiscal will be lesser than what we have delivered historically.

Comparable programming cost for the quarter grew by 11%, led by higher spends on ZEE5 and new television channels. As ZEE5 video views grow, it also leads to a higher technology cost, which is a part of programming. Underlying EBITDA for the quarter stood at Rs. 6.4 billion and margin was 29.3%, an improvement of 635 basis points sequentially. The cash and treasury investments for the Company were Rs. 18.2 bn as on 31st December 2020, which includes bank balance of Rs. 3.9 bn, fixed deposits of Rs. 6.5 bn, mutual fund investments of Rs. 7.3 bn and NCDs worth Rs. 505 mn.

That's it from my end on the overall quarter performance front. Back to you Bijal.

Bijal Shah: Janice, you can start the Q&A.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is on the syndicate revenues jumping sharply. Could you tell us which geography, which client, why suddenly now, what was the thought process? And can we see more such deals in the coming quarters? Was this largely because of the better inventory you wanted to utilize? Was that the key?

Punit Goenka: Abneesh, this was actually not specific to any one particular geography. It was spread across international markets. A large part of it was emerging from the fact the markets that we want to exit, case in point being Germany. Some markets in the Spanish speaking region that we want to exit in the future and just a deal that fructified in this quarter. It was something that we have been pursuing from pre-COVID times, but it just happened in the last quarter. Hopefully we would love to find such deals every quarter, but as you can imagine they are far and few.

Abneesh Roy: Second question is on a movie production, extremely risky business versus your core business. Now you want to scale up significantly which you have mentioned earlier also. So my question is, do you want to be a big box-office player or the strategy will be to more supply good quality content to your own network? And after this also because of the experience or learning from the last two movies, either on box office or on your own OTT, *Suraj Pe Mangal Bhari* and the other one in terms of the *Khaali Peeli*. Because in the past we have seen other movie production companies also struggle a lot. It's extremely risky business, so what kind of outlay/margins, if you could give us some sense on FY22 on this part of the business.

Punit Goenka: So, we will want to play the holistic film business game, Abneesh. As I talked about in opening remarks that we are targeting time and the entertainment share of the consumers and movies do form a significant part of the share for the consumers in our country. And therefore, we will play the holistic game of box office as well as it being a feeder of content into our own ecosystem for all three segments of digital, broadcast, as well as the music business. Obviously it will be a low margin business compared to our traditional core business of television. But we do believe that the portfolio and the approach towards selection of the films we can make it sustainably profitable for us in the long term, and including FY22 itself.

Abneesh Roy: Anything on outlay and impact on the profitability, any sense on that?

Punit Goenka: So, as I said, it will be a lower margin business compared to our television business. I don't think specific guidance we are giving right now on that, but we will be giving you overall guidance, as I mentioned, by the end of Q4 for the overall business which will factor-in this low margin impact of the movies business.

Abneesh Roy: And last question on advertising. Normally you give a feel of the outlook. Now we have seen economy rebound far higher than initially expectation, still some sectors are lagging, for example, travel, hospitality, etc., are still lagging. So, if you could give us some sense on that part of the lagging sectors? And overall how are you getting the feel, is this more of a temporary shoot up in the economy and that's why advertising or you see FY22 irrespective of the base, base is extremely favorable, but when you see on a two-year basis, do you see FY22 being an extremely strong year in terms of advertising?

Punit Goenka: Abneesh, also Q3 is the festive quarter, so that part also plays a role in the growth that you have seen. As I said, we are near normalcy, we are not back to the normal situation. So Q4 should be better and definitely in FY22 we will see growth for the industry overall. But whether it will be back to the normal 10%-11% number or not is still very hard to say. We are yet to see this quarter before we can guide for the next financial year fully.

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

Sanjesh Jain: First on the core business, on the television advertisement side, how has been the mix between volume and value? Are we in terms of pricing per ten seconds in our core GEC portfolio back to pre-COVID level or we still have a headroom in terms of pricing led growth in the advertisement?

Bijal Shah: Sanjesh, so compared to 1Q and 2Q, we have seen significant improvement at both the places, in pricing as well as inventory utilization. And it was a festive quarter so pricing was good, but that said, we continue to see a possibility of improving pricing further. Typically, 80% to 85% of growth in any particular year comes primarily from pricing because inventory is largely fixed. So save for the impact of COVID, we typically run at 90% to 95% in all the key channels during prime time. So largely our growth is always driven by pricing and in the coming year we are saying that the industry and us will mostly likely have a very strong growth that would be largely driven by pricing again.

Sanjesh Jain: So, are we back to pre-COVID level, as in are we back to last year pricing or there is still a gap between last year pricing to this year pricing?

Bijal Shah: Depending upon channel to channel but yes pretty much close to that or in some of the channels it would be higher than that. Some of the channels lower than that also, as viewership has a role to play in what exact price you get, but it is in that ballpark.

Sanjesh Jain: Second on the ZEE5 portfolio. Now that we are one of the probably leading OTT player in terms of releasing original content, which Punit rightly highlighted, we have released more than 200 originals, but in terms of subscriber addition or a momentum MAU to DAU it still looks like we are lagging in terms of converting monthly active users to daily active users. And in terms of revenue growth again considering that there is a revival in the advertisement I think on the digital side we also put the advertisement revenue there, the quarter-on-quarter growth still doesn't look like that exciting in ZEE5.

Punit Goenka: So, I think one of the key things on ZEE5 that we lost the base on, was the fact that we had no original content, because our MAUs are driven from the television content that we put onto the platform. So that has shrunk the funnel for us in a big way in the initial period of Q1 itself. We have been building the base back from that period onwards. Obviously it's far more stable now, as you saw the numbers of the last two quarters and hopefully from this quarter onwards the monetization will also start improving. On the subscriber side, we have had again stand-offs with multiple operators given the fact that a key property came only in the 3rd quarter of this fiscal and therefore we had to get off some platforms for commercial reasons. So that's a battle that continues to go on Sanjesh and it's something that we will continue to fight going forward as well.

Sanjesh Jain: Just one last question from my side a follow-up on this, can you give some color how is the underlying growth in the paying subscriber customer in the portfolio?

Bijal Shah: Sorry, can you repeat your question?

Sanjesh Jain: How has been the trend in the subscribers who pay, as in subscription-based subscribers? We don't need the number, but you can give a color.

Bijal Shah: It is pretty much in line with the revenue growth which you have seen during the quarter. The mix of revenue between ad and subscription quarter-on-quarter hasn't changed much and subscriber growth also has been in line with the revenue growth which we have seen during the quarter.

Sanjesh Jain: I was just asking because we had run a promotional offer I think in the 3Q to add a subscriber at 699 a year. So I was just trying to understand, has it attracted a lot more customers because the revenue may not have come but customer may have grown faster.

Bijal Shah: Sanjesh, there are continuously some scheme or the other scheme. And you would see that from us also, you would see some others also. So, it is overall part of annual plan which we build, so nothing very different we had done. Of course we had run a scheme, but there would have been something else in some other quarter.

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

Yogesh Kirwe: Regarding the content investment phase we are talking of from FY22 onwards, so just a clarification, will it be within the guidance on the free cash flow, the cash flow conversion that we used to talk about earlier, 50% cash flow from operations with tax conversion, so that stays or that could also see some revision?

Bijal Shah: Yogesh, as Punit pointed out that we would be increasing our investment across three businesses and as we increase our investments there will be an impact on all the aspects, working capital as well as cash flow and the margin. Still we have not absolutely finalized the plan, there are certain things which is in WIP right now and that is the reason why we mentioned that during the 4th quarter we will give you granular guidance on all the three line items. So at this point of time we will not be in a position to guide you exactly, but guidance for FY22 will be available in 4Q FY21 call.

Yogesh Kirwe: Regarding second question, if you look at the television subscription revenues, I understand there are lot of uncertainties at the moment, but from a medium-term perspective what are our growth expectations and what are the key drivers of that? I understand we taking plain vanilla price that might be little more challenging than used to be in the past. So what could be the driver? Is it like HD conversion or any factors that could drive it?

Punit Goenka: If the regulation stabilizes and things become normal in a stable situation, low teams to mid-teens kind of expectation is fair, which is both on account of pricing, as well as discovery of subscribers that may not be paying currently.

Yogesh Karve: Just sort of a broad clarification in terms of what could be the subscriber growth expectation built into that number that we just spoke about?

Bijal Shah: As Punit also mentioned during the opening remark that there are 100 million homes yet to get their television set itself. So we continue to see at least 2% to 4% increase, depending upon year, in television household population. So that is one growth driver. After that some conversion to HD, some up-selling, there are other drivers. We continue to add more channels to our portfolio that also enables us to take price hike which is not plain vanilla pricing, but that is a price hike on account of the fact that we are offering more content. So, all this put together, low to mid-teens kind of revenue growth can be driven if the policy environment is stable.

Yogesh Karve: And just finally a data point. So there was sale of overseas mutual fund that was pending in the last quarter. Has that happened during the quarter?

Bijal Shah: Yes. That been received.

Moderator: The next question is from the line of Arun Prasad from Spark Capital.

Arun Prasad: My question is on ZEE5 DAU, so Daily Active Users have been more or less stable around 5 to 6 million for last many quarters. So, I just wanted to understand what would be your medium term target in terms of this metric, what is your expectation from this platform and to achieve the target what are the strategies you have in place apart from increasing spends on the content?

Punit Goenka: The MAU to DAU conversion is still going to be focused largely from catch-up TV for us, Arun. So, we are not really going to be investing capital behind MAU to DAU conversion. Our expectations on the investments will be largely on the original content and movie content that we will build for the subscriber acquisition. Our conversions rate from MAU to DAU, we would be targeting in the mid-term around 15% to 18%, let's say by end of the next fiscal. That will be an industry benchmark that we should be looking at.

Arun Prasad: But even within that, if you see the average time spent, this is still lagging behind most of your peers with a similar content or the subscription rates. Is there any particular reason for this some kind of lagging behind the peers?

Punit Goenka: The fact Arun that, I will say it again, because it is catch-up TV, and some of the key shows may not be performing as well on television. So that same effect is seen on OTT as well. So as and when you have more hit shows on television, the catch-up consumption also gets driven up. It's a kind of a same situation that is impacting both the linear business and the non-linear business.

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

Kunal Vohra: On the new strategy you mentioned that with that there could be some pressure on margins. Would you also see an acceleration of revenue growth and would that happen in FY22 or it will be back ended? Is it fair to assume that the 30% margin you have earlier guided to will not come through but will the sales be higher to offset the impact and the EBITDA growth should still be strong? I understand that you are going to give more color next quarter but anything which you can share here will be good.

Punit Goenka: Certainly we will not be able to deliver on the 30% EBITDA margin guideline, given the fact that the full-fledged growth level even we can't predict right now for FY22. We have to wait and watch and can only talk more granular in the next quarter but I do expect some impact on margins to happen.

Kunal Vohra: Would there be an impact on sales as well or sales impact would be back ended?

Bijal Shah: Kunal, definitely as we are spending more money there will be incremental sales but in many of the business, like digital and also to an extent in television, we will first have to make investment and typically revenue will follow in due course of time. There will be definitely immediate impact on sales which will be positive but full impact of the investment which we are making would be visible over a period of time. So as Punit mentioned during the opening remarks that around 10 years back, around FY12, we were making investments, in the near term it actually impacted margins but over next several years it helped us grow much ahead of the industry. That's the broad thesis with which we are working, so initially it will have an impact on margins and later years we will benefit on account of that.

Kunal Vohra: On the content syndication deal, has the cash already been collected or is it reflecting in the balance sheet as I see that receivables have increased?

Punit Goenka: No, the cash has been received.

Kunal Vohra: In that case the receivables are increased, any reason for that further increase in receivables?

Punit Goenka: Firstly, there are more sales in Q3 itself, so our receivables would go up on that account. Secondly, there is whole amount of incentive which needs to be paid out on account of distribution that is sitting in our liability, and reflecting in our receivables as well. It's not apple-to-apple comparison from that perspective.

Kunal Vohra: Post the pandemic have you seen any changes in content cost as there would be demand supply mismatch as various broadcasters look to strengthen their content while production might not be fully back. Similarly, on movies, have the prices changed compared to pre-pandemic level?

Punit Goenka: On the content cost for television there has not been any change because on the cost per hour basis things are pretty much stable because there is still ample supply available for content on television side. On the movie side cost had gone up even before pre-COVID with the advent of digital but on the other side for television the content cost has come down on films right now. It's kind of even evening out itself but collectively still the costs are higher on the film side in the short-term specially in the Hindi market. The impact is not as extreme in the regional market as you would see in Hindi.

Moderator: The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Just wanted to ask on the advertiser confidence on the BARC rating now, post what we have seen in the press while the court case is going on. On the BARC rating what's your thoughts on that and how are the advertising….

Punit Goenka: I will answer this in my current position not as the other position. I think the BARC ratings impact largely the news genre and not so much the genre that we operate in which is entertainment. As you can see the ratings for the entertainment channels have been coming out as usual and there has been no change whatsoever to that. Therefore, I see no reason for any doubt in the mind of advertisers for BARC rating system for the entertainment channels and the total impacted viewership that we are talking about is 7% of the viewership of this country, which is the entire news genre put together.

Moderator: The next question is from the line of Pratik Rangnekar from Credit Suisse. Please go ahead.

Pratik Rangnekar: One quick question from my side on advertising. We have seen a very sharp pickup in the advertising run rate from (-26) last quarter to 7.5 growth this quarter. Just wanted to understand are there any particular sectors or segments that you are seeing growth in and are there any particular segments which are yet to grow here and if you could provide your estimate on what was the industry advertising growth this quarter?

Bijal Shah: Hi Pratik. Overall we have seen growth across the sector. I am not sure you are asking YOY or related to previous quarter. Compared to previous quarter there is growth across sectors. If I look at compared to last year also there is growth across most of the sectors. Auto has done pretty well as compared to what it was doing last year and FMCG continues to drive the bulk of increase in advertising in the country. At industry level growth was -2% in our estimate and that is excluding impact of IPL. So I am talking only about entertainment where growth would have been close to -2% for the industry.

Pratik Rangnekar: Any particular sector where which you are seeing on a YOY basis is yet to pick up. I understand you said FMCG and autos have done well. Is there any sector which is yet to pick in?

Bijal Shah: FMCG itself is a very-very large sector and auto was also doing pretty well and then we saw good growth in e-commerce also. Consumer durable was also doing pretty well. There might be few sectors which have not done so well Y-o-Y but they are not really that large which will change overall growth of the industry.

Pratik Rangnekar: My next question is on the content inventory pie chart that you guys provide. On a quarter-on-quarter basis we see that your shows and content advances have come down in absolute terms. Is it that the syndication that was done has gone from shows and content advances?

Bijal Shah: As Punit mentioned the content relates to lot of international market where we shut down or we are thinking of shutting down. There was inventory in those markets, we talked about Germany where there is lot of inventory which was kind of dubbed in German language and that is of no use because we have shut the channel. Many such content pieces have gone out of shows and so that's why you are seeing that decline. And advances movement is normal. So this advance was for content, and on delivery of content that advance moves into inventory. So that normal transition from advances to inventory has happened during the quarter.

Pratik Rangnekar: Last quarter you had mentioned content advances are around 400 crores. Can you provide that number this quarter, what is the number now?

Bijal Shah: Content advances is around 14% of 56.5 billion and what you are referring to is the content deposit which we had paid and which were later on converted into advances which were at around 4 billion, they are now around Rs. 3.6 billion. Total content advances somewhere around 7.6 billion.

Moderator: The next question is from the line of Jigar Mistry from Buoyant Capital. Please go ahead.

Jigar Mistry: If you look at that Press Note from the accounts, the content monetization. Would it be fair to assume that if I back calculate the cash from operation, save for that content advances it would have been a negative cash flow from operations? And if it all can you give some more color on who actually purchased this content and how one should look at it?

Bijal Shah: Jigar mathematically that is correct. We received 5.5 billion on account of sale of this content and that money has been received. During the quarter we have seen significant investment in working capital which was one on account of the fact that revenues were going up. So, we have seen working capital release in probably earlier quarter, and now we are seeing debtors going up, that is on account of the fact that earlier there was a decline in revenues and now there is an increase in revenue. Working capital release which happened during the first half has got reversed. Secondly, first half if you remember there was hardly any content which was being produced and content production itself had come to kind of standstill. We have actually lost almost like 6 months so we have actually ramped up content production also. That is also one of the reasons why we have seen some increase in working capital. Overall there is some negative free cash flow during the quarter on account of disruptions.

Jigar Mistry: Any more color on who actually helped monetize this content?

Punit Goenka: This is again an aggregator who does content across markets in the international, that has taken the content from us.

Moderator: The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: My first question is that traditionally the IPL is held in the first quarter and this time our large part of the IPL was in the third quarter. How much has the advertising been affected because of the IPL being in the third quarter?

Punit Goenka: Part of it would have impacted us but it also helps us in a way because the way IPL sells advertising it is category exclusivity so all the competitors or the people who buy IPL actually for share of voice go to competition. So, it also helps us in one way and therefore while there has some impact but also some help to us. Overall from the industry point of view IPL from Q3 would have taken away both on TV and digital put together about, correct me if I'm wrong about 1400 crores of advertising.

Rakesh Jhunjhunwala: What was the total revenue of advertising digital and TV?

Punit Goenka: With both is about 2000 crores.

Rakesh Jhunjhunwala: Total industry-wise revenue?

Punit Goenka: Industry-wise revenue for Q3 is about 8000+ crores.

Rakesh Jhunjhunwala: That means about 14% to 15% of the revenue which in every quarter wouldn't go to IPL this time?

Punit Goenka: That's right.

Rakesh Jhunjhunwala: And everybody is affected to the extent of 10% to 12%?

Punit Goenka: That's right.

Rakesh Jhunjhunwala: You have an economic growth which in the third quarter was, as I see, a breakeven level. Now the predictions of 15% to 16% nominal GDP growth next year. How can the advertising not go up you tell me? When the delta is so high in the economic growth from nearly nil to 15% and after advertising is a product of the total growth in the economy so I don't understand that how can there not to be a substantial increase in advertising revenue next year. So the GDP grows by 15%, the GDP grows by 15% revenue only, advertisement should grow by at least 20%-25%?

Punit Goenka: Mr. Jhunjhunwala you are right. It should grow by that somehow but that will be the advertising growth for the entire industry overall.

Rakesh Jhunjhunwala: You are part of that industry, you may gain some market share, you may lose some market share but if the industry grows at 20%, that should be substantial and your marginal costs are very few, so it will reflect in my rate. So, in my personal opinion your profitability should show fast, greater growth and I don't understand your hesitation in saying that?

Punit Goenka: Give me a minute to try and explain to you. There are certain parts of the industry which we don't play, for example the digital side which is not related to video which is a large part of the industry today which is search and display advertising. We have no role to play in that part and that part also grows significantly higher.

Rakesh Jhunjhunwala: Punit, I understand that but how much percentage of search and the other part in which you are not there is a total take in the revenue. It may be 10% of probably advertising revenue. If the industry grows at 20 you may grow at 15 because you don't participate there? I don't understand if the economy is to grow at 15%-16% nominal then how advertising growth can be less than 20%? You are not in those segments today; your segments have also grown 20%. You are not there in those segments even today.

Punit Goenka: I pray that your bhavishyavani comes true.

Rakesh Jhunjhunwala: My bhavishyavani is based on certain facts. If the growth tapers off, I could be wrong. I don't think if the growth comes at 15%-16% nominal, advertising growth in your segments can be less than 18% to 20% and as companies prosper more and compete more they tend to advertise more.

Punit Goenka: Sure and also we are coming from a lower base so yes the numbers should be high.

Rakesh Jhunjhunwala: Your marginal profitability should be very high because the content cost doesn't go up with the advertising revenues?

Punit Goenka: That depends. It will go up because of the other sectors. Television profitability absolutely you are right will go up because the cost will not go up in that same proportion but the investments in other pockets of our business will impact properly.

Rakesh Jhunjhunwala: You may invest; today advertising is a bulk of your revenue?

Punit Goenka: Correct.

Rakesh Jhunjhunwala: So advertising should be 75%-80% of your revenue?

Punit Goenka: It's about 65%.

Rakesh Jhunjhunwala: 65 is two-third.

Punit Goenka: Yes.

Rakesh Jhunjhunwala: The one-third may not gain but two-third you will gain and there the marginal profitability is very high. In my mind I can be totally wrong but this kind of delta in the economic growth all people whose businesses are high fixed cost based should become very-very profitable.

Punit Goenka: Sure.

Rakesh Jhunjhunwala: I thought it will be better if you, when I don't know, let's see time will bear us out.

Punit Goenka: Sure, we will see how it plays out but I can assure you if industry grows at whatever pace we will beat that rate.

Rakesh Jhunjhunwala: I like that attitude. Thank you and once again congrats on a good performance and you are going to make some changes in your Board of Directors so when can we expect that to be done?

Punit Goenka: We have already brought two new Directors onto our board that we had announced last quarter itself.

Rakesh Jhunjhunwala: Are you contemplating any further changes?

Punit Goenka: Not till we have any retirements coming up.

Moderator: The next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: Can you please share update on our investment in SugarBox?

Bijal Shah: As far as our investments are concerned, we were talking about that we will discuss it with Railways. Because of COVID there has been an impact, so post our discussion what we feel is that we will start our CAPEX primarily in 1Q of FY22 and entire rollout of the project will happen over the next 3 years. You will start seeing the Capex for the project from the next fiscal.

Vikrant Kashyap: So we are continuing with the Capex from next year onwards, when would SugarBox start generating revenue for our company and what's our outlook for SugarBox for next 5 years?

Punit Goenka: SugarBox already generates revenue for the company, though very miniscule right now, and the outlook for SugarBox, as a projection, is that within fourth year of operation in turns cash flow positive for us.

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

Naval: On Capex and margin guidance, Punit if you can share that for FY22 because we are now heading for a normalized scenario as ad-growth has bounced back and would be improving in the ensuing quarters?

Bijal Shah: There is nothing very special in the next year. There might be some increase in Capex on the development of ZEE5, but nothing really very large as compared to with our regular Capex of 2-2.5 billion in a normal year.

Naval: I missed out on that, development of ZEE5?

Bijal Shah: So I mean, we are spending some money on two things. One is improving consumer experience and another is Ad-tech. So on this, there might be some incremental Capex in the coming year, but nothing very-very large to change overall outlook for the Capex. Typically in a normal year, we end up spending 2-2.5 billion, it should be in that vicinity.

Naval: And margin guidance?

Punit Goenka: Margin guidance that will be still early for us to give. As Bijal talked about it and I also said in my opening remarks that we are in the midst of finalization of our plans for FY22, but it will certainly not be as for the guidance we have given of 30% in the past where we'll come back to you with more granular details by the end of the year.

Naval: And on the other operating income, as we had large syndication revenues, so can you provide some details, how much of content was sold, bought from where? I mean some details on that because that number seems to be quite large.

Bijal Shah: The number is given in the earnings. It is around Rs. 4.7 billion of content, that is the book value of the content, and that is a mix of some content being bought but large part of that being developed internally or I mean, developed by us and that content being sold to a content aggregator. So, it is not something which we bought and traded it. It has been there in our balance sheet for a while and as we thought that this content may not be so much useful to us given our changed priorities international market, we decided to put it on blocks and we found a buyer and we sold it.

Naval: How would have cash flow change adjusting for this, because if I am correct that your receivable increase, would also have a bigger chunk rising from the sale as well, on sequential basis if I look at

Bijal Shah: No, as we mentioned that entire money with respect to the sale of 5.5 billion has been received. So there is no increase in debtor on account of that. Debtors increase, as I explained to one of the earlier participants, is on account of the fact that we have seen working capital release in one half, when we are seeing almost like 60% decline in ad revenue in 1st Quarter, in the second quarter there was another 25% plus decline in ad revenue. So that is the time working capital got released, now as our revenues are coming back to the normalcy the working capital increased. Now and also on the subscription side, if you see typically what happens is that through the year we see subscription receivables going up and towards the end of the year we see subscription receivables going down because there are some of the negotiations which are going on and till the time negotiations are not fully over, many times there are delays in payments. So, that is normal cycle, you would have even in past seen that our receivable on account of subscription goes up during 2Q and 3Q and normalizes in 4Q. So that is the reason why we have seen an increase in working capital.

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

Alankar Garude: My first question is on the advertising revenues, broadly in your conversations with advertisers, how are they thinking about 2021? Because what we hear in the market is that even after the festive season this time around in December, especially there was a significant increase in the advertising activity. So are you seeing that momentum continue and secondly because now IPL will come back again in the next few months. Does that really change how advertisers are looking about advertising on the entertainment side?

Punit Goenka: No, I think the buoyancy on advertising still remain intact. Of course, the natural lag of Q4 will play out because Q3 being festive season will see the maximum peak. But year on year there should still be a growth in the 4th Quarter of the current fiscal. And how IPL will impact, as I said IPL is part of our life, it's nothing that impacts, the industry also factored in that this event is going to happen every year and people will be planning around that for their advertising spends from that perspective. I don't see that having an impact on the industry overall. So that 2,000 crores that has to be spent on IPL will get spent on IPL and the rest of the industry will get whatever has to be spent on.

Alanka Garude: Secondly, can you comment on the outlook for subscription revenues, especially because we haven't seen any progress on the tariff order front?

Punit Goenka: Without the clarity on the tariff order front is very difficult to give any outlook. Right now it is going to be on a status quo. Until that regulatory issue doesn't get resolved, we are unable to take any price hikes or anything. So it's pretty much going to be status quo until that resolves. Once that is resolved and stability resumes, let's say in a quarter or two post it been getting resolved, as I mentioned early-teens to mid-teens kind of growth can be expected from the subscription side.

Alankar Garude: We take the last two questions now. The next question is from the line of Rohit Prakash from Marshmallow Capital.

Rohit Prakash: My first question on ZEE5, on my research I noticed that there has been quite attrition at the ZEE5's biggest levels. So is that affecting the performance in terms of conversions and number additions as well?

Punit Goenka: So firstly, the attrition is planned attrition. So yes, it would be impacting some amount of operations on a day-to-day, but that's very short term.

Rohit Prakash: So, is the team entirely stabilized right now?

Punit Goenka: Yes, now the team that is in placed is completely stabilized.

Rohit Prakash: Second question on the board composition, it was very interesting to see the profiles of the board members of the company has added over the last one and half years. But one profile that from my view I think lacking is the given move towards tech in general in media, we do not have anybody who is globally or nationally renowned for his or her tech expertise. So given ZEE5 is a major part goals strategy, should we not look at plugging the gap?

Punit Goenka: Rohit I think you should look at Mirchandani's profile; he has been investing in Tech companies for the last 15 years and runs a fund out of Mumbai, it may not be a very large fund on the lines of Sequoia or SoftBank or anything, but as an individual his capabilities and understanding of the tech world is better than anybody else that is why he was brought on board and we can share his profile with you. No problem.

Moderator: We take the last question from the line of Mayur Gathani from OHM Group.

Mayur Gathani: A couple of questions. There were some overseas funds that were due to come in this quarter and have they come in?

Punit Goenka: Yes, they have been duly received.

Mayur Gathani: All the funds around 225 Cr have been duly received?

Punit Goenka: That's correct.

Mayur Gathani: And how are the receivable positions from the group companies? Dish and Siti is still paying you because you have taken the right off in Q2. So where do we stand on that?

Bijal Shah: If you are aware that the last quarter, we actually moved Siti cable to cash and carry model and that cash and carry model continues. So, they pay for the content which they buy and accordingly there is no outstanding at this point of time as far as Siti concerned which is not provided for. As far as Dish TV is concerned, Dish TV continues to make payments as per the payment term which was submitted, and as per that Dish TV receivable has come down. So it was around 5 billion rupees last quarter which has come down to 4.6 billion rupees at the end of this quarter. And as far asSiti Cable is concerned, there is no outstanding which is not provided for. So Siti continues to pay on cash and carry basis.

Punit Goenka: We should return back to normal situation by September or December.

Mayur Gathani: So by September you were expecting them to pay the 460 Cr? That's the balance outstanding, previous outstanding.

Punit Goenka: 3-4 months that will remain, which is normally the credit allowed for any right.

Mayur Gathani: The majority of that will come back to?

Punit Goenka: Correct.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Bijal Shah for closing comments.

Bijal Shah: Thank you everyone. Should you have any further queries, please feel free to reach out to investor relations team. Thank you.