Zee Entertainment Enterprises Limited

Q2FY21 Earnings Conference Call

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Edited Transcript

MANAGEMENT:

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Mr. Rohit Gupta – Chief Financial Officer

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to Zee Entertainment Enterprises Limited Q2 FY 21 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 webcast concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Bijal Shah: Thank you, Janice. Good day, Everyone and Welcome to Zee Entertainment's Q2FY21 Earnings Call. Hope you all are well and taking good care of yourself during the pandemic.

We have with us today our Managing Director and CEO Mr. Punit Goenka along with our Chief Finance Officer Mr. Rohit Gupta. We will start with a brief statement from Mr. Goenka followed by a statement on operating and financial performance by Mr. Gupta. We will subsequently open the for Q&A. To ask questions please join Chorus Call brief provided in the webcast invite.

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

Thank you and over to you, sir.

Punit Goenka: Thank you Bijal. Before we get into the details of the Company's performance during the second quarter, let me share an overview of the strategic organization restructuring that we have initiated recently.

The 4.0 version of ZEE, built on the pillars of Governance, Granularity, Growth, Goodwill and Gusto will drive the internal transformation required to ensure that ZEE continues to deliver exceptional performance in this rapidly evolving environment. The market is already witnessing an explosive growth in content consumption and as per the estimates, content consumption in the genres of Watch, Read, Listen & Play, will grow by as much as 3X in the near future. Along with this unprecedented growth, we are also seeing structural shifts in the industry like content personalization, integrated advertising solutions, technology & data led innovations and disruptions, and increased competition. Winning in this new landscape requires rewiring and realigning the organization around these challenges and emerging opportunities. The recent organizational restructuring is the first step in the transformation journey that we have embarked upon.

The growth in content consumption presents an opportunity for ZEE to build scale and grow exponentially over the next few years. As I mentioned during our last interaction, my team and I are working with a leading global consulting firm to sharpen these plans. Even as we finalize these plans, there are two design principles that we believe must underpin our transformation – SIMPLICITY and FOCUS backed by relentless EXECUTION. The recently announced changes reflect these principles of simplicity and focus. We have realigned the organization around the three core value chains – CONTENT CREATION, CONTENT MONETIZATION and USER ACQUISITION. We believe this redesign of the organization around the core value chains led by seasoned leaders who have successfully demonstrated their ability to build scale and drive growth, will see us achieve success in the years to come. We have shared a more detailed note on the revised organization design and I will be happy to address any questions that you might have at the end.

Now let me share with you an update on subscription outstandings. We have collected from Siti the receivables relating to the revenue in the first half of FY21, but it has failed to pay subscription overdues in accordance with the payment plan agreed by it due to various challenges including COVID 19 and pressure to prioritize lender payments. Accordingly, the Company has taken a provision of Rs. 81.2 Cr towards subscription dues which is due as at 30th September 2020. Further on account of accelerated payment demands by some of the DSRA backed lenders due to delay in restructuring by Siti, and their failure to renegotiate extended repayment terms, the Company has provided for the DSRA liability of Rs.97 Cr as at 30th September 2020. The provision has been made as a prudent measure and the Company will take necessary steps to recover these dues.

Dish TV on the other hand has been making payments in line with the plan submitted by them. As per the plan Dish is paying every month's billing plus a part of its arears. I would also like to highlight that Dish TV's financial position has significantly improved over the last six months and consequently its debt rating has been upgraded several notches to A4 from D in the month of February by CARE. As a result of the improved financial position, we expect Dish TV to accelerate payments, and arears are likely come down further by end of the fiscal. At present Dish TV's outstanding stands at Rs4.98bn, compared to Rs5.84bn at the end of FY20.

With this I conclude my opening remarks. Now I hand over to Rohit, who will take you through the business and financial performance updates. Over to you Rohit.

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

After the disruption faced in the first quarter, business returned to near normalcy in the second quarter. Shooting of original content resumed full-scale in all markets by end of July, with safety measures implemented across all locations. Other than shooting and some essential operations which require presence of people on the locations or offices, as an organisation we largely continue to work from home.

As semblance of normalcy is returning on ground, we are seeing the same getting reflected in viewership patterns as well. While TV viewership continues to be higher than pre-COIVD times by about 15%, the shares of different genres has reverted back, with GEC regaining share it had lost to news and movies during the lockdown. As original content returned on our channels across the markets, we saw a sharp bounce back in our viewership. Zee network had viewership share of 19% during the quarter, led by recovery in Hindi, regionals and the re-launch of 2 FTA channels on DD FreeDish. There are a couple of markets where the performance is lagging our expectations and there is scope to push for higher viewership share. In Hindi, Marathi and Bengali markets, our teams are working hard to capture higher audience shares and the recently launched shows in these markets should help with that. Our performance in the South market has been fairly strong post lockdown with Telugu and Malayalm channels at their highest ever shares and the movie channel portfolio also gaining traction.

Now coming to ZEE5. Global MAUs and DAUs for the month of September as per our internal data analytics were 54.7 million and 5.2 million respectively. During the quarter, ZEE5 released 25 original shows and movies. With return of TV content and original shows like Abhay, Mafia and Lalbazaar, consumers spent an average of 152 mins on ZEE5, a growth of 36% over Q1. The revenue and EBITDA loss of ZEE5 for the quarter was Rs. 989 million and Rs. 1.90 billion respectively.

As the cinemas continued to be shut during the quarter, we launched Zee Plex, which is India's first pay per view platform for releasing new movies on Television and OTT. We released two movies – *Khaali Peeli* and *Ka Pae Ranasingam*, on this platform which received enthusiastic response from audiences. We will continue to experiment with such new formats which makes access to content easier for our audiences.

Zee music company added over 7 million subscribers during the quarter and continues to be the second most subscribed Indian music channel on Youtube. There was a sharp jump in the label's video views on Youtube as it released new music albums during the quarter.

Now coming to the financial performance. The revenue for the quarter declined by 19%, a sharp improvement from 35% YoY decline that was seen in last quarter. Advertising revenue during the quarter was down 26% compared to the 66% degrowth in Q1. Each month has seen an improvement over the previous month and we expect to reach last year levels in Q3, which will set us up nicely for driving growth in the next fiscal. During the quarter, most of our advertisers have seen a strong rebound in demand for their products and the festive season has started on a good note. This should translate into healthy growth in ad revenues going forward. Domestic subscription revenue saw a modest like to like growth of 2.3% YoY which was mainly driven by the growth in ZEE5's subscription revenue. Due to the lingering uncertainty on NTO 2.0, our subscription growth this fiscal will be lesser than what we had anticipated at the beginning of the year. However, once this settles, we should go back to our expected subscription growth guidance.

With original programming resuming across the network during the quarter, operating cost saw a QoQ growth of 27%. However, it was still 7% lower compared to last year as production in some of the markets started late. Growth in A&P cost is mainly because of two reasons – one, we spent on content comeback campaigns across markets for both TV and ZEE5. Second, the growth looks high as the base number was unusually low. EBITDA for the quarter excluding the provisions for receivables stood at Rs. 3.95 billion and margin was 23%.

The cash and treasury investments for the Company was 14.5 bn as on Sep 30 which includes 3.8bn of bank balance, 2.9bn of fixed deposits, 7.2bn of mutual fund investments and NCDs worth 511mn. The transaction for the sale of overseas investments has been completed and the funds will be credited into our account in the next few days. Thank you and over to you Bijal.

Bijal Shah: Thank you Rohit. We will now proceed to Q&A session. I would request moderator to take the discussion forward. Over to you Janice.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on Siti Cable. So, in the Q1 call it was not highlighted and suddenly so much deterioration in Siti Cable has happened. Why I'm asking this is after that the lockdown has ended and we have seen fantastic recovery in all parts of the economy. So wanted to understand that why it was not highlighted? And second, revenue recognition from Siti Cable, so way forward what happens, is there any more write-offs, any more provisioning and what happens to the revenue which you will get from Siti if you could elaborate on that?

Punit Goenka: On the first one I will ask Rohit to come in. But on the second one let me attempt. So the revenue as of now is being accounted for on a cash and carry basis. As you would have heard from my opening remarks itself that April to September 2020 Siti has made all payments for the content delivered and therefore it's on a cash and carry basis and that's how it will continue going forward from here on as well. On the first part of not being highlighted in Q1, Rohit.

Rohit Gupta: So as we mentioned in our earlier calls as well, Siti had given us a payment plan which included two aspects – the first was payment for the current billing that was happening and the second was payment for the old outstanding. While the payment for the current billing happened for the April to September quarter, we did not receive payment for the old outstanding and various reasons were there like Punit highlighted - COVID and the pressure from their lenders as well. So in this quarter as a matter of abundant caution we have taken a provision of 81.2 crores for all the outstanding that we had had from Siti Cable.

Abneesh Roy: And any further provisioning likely in the coming quarters on Siti Cable or any other group company?

Rohit Gupta: No, as we have already taken provision for the entire outstanding and we are now going to work on a cash and carry basis with Siti, so we do not expect any more of write-off.

Abneesh Roy: Punit my second question is on 15% higher viewership than pre-COVID. So, on the cost per thousand are you getting benefit because now FMCG companies are seeing good growth and many other parts of the economy or because of the COVID uncertainty or per thousand viewership till that 15% growth now as we speak in Q3 that is not happening?

Punit Goenka: Abneesh I don't think the pricing has yet come back to the pre-COVID levels. We have seen significant improvement in that happening and I would see it normalizing in the Quarter 3 and then expecting growth from Quarter 4 onwards.

Abneesh Roy: And so in terms of ad revenues also you expect Q3 growth or you expect Q4 only because Q4 base anyways is soft?

Punit Goenka: Q3 and Q4 base anyways is soft but we expect that Q3 we will only be able to maintain what we had received last year; very insignificant, moderate growth if at all possible. But Q4 certainly will have heavy growth over the last year.

Abneesh Roy: My next question is on ZEE5, so you are seeing growth in revenue but losses have gone up. So wanted to understand the experience of showing new movies on OTT. So, you showed the one new movie in Q1 and one more in Q2. So normally you are a low cost content player in terms of strategy, so seeing the experience in Q1- Q2 and the losses which have gone up quarter-on-quarter by 40- 45 crores what would be the thought process?

Punit Goenka: So Abneesh, firstly just a minor correction, we are not a low-cost model. We are a efficient cost model business and it's not just one film or the other that has impacted, this is content which is planned over a period of time. As you know that for a large part of Q1, a lot of the new production had stalled which have fructified in Quarter 2 or Quarter 3, or will happen over Quarter 4 as well. So, our guidance is on an annualized basis. This level of granularity on a quarterly basis will be difficult to do on this call, so you can take it up with Bijal offline certainly.

Abneesh Roy: Proceeds for the foreign investment, what is the status?

Punit Goenka: As Rohit said in his ending remarks that the transaction has been concluded and we are expecting funds any day now.

Abneesh Roy: And the quantum?

Punit Goenka: The quantum is the residual, I think is $24.5 million from what we had already received. The total was $30 million, we have received $4.5, so $25.5 is currently pending.

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

Jay Doshi: Punit my first question is, if you could sort of elaborate on what is the rationale for reorganization and what are the changes in the role of senior management and role for Rahul Johri who has joined?

Punit Goenka: So as I explained Jay that we have restructured the senior management around three key verticals, the content creation, content monetization and subscriber acquisition or consumer acquisition. Mr. Johri is going to be responsible for the monetization part of it. That is the second vertical I talked about.

Jay Doshi: Second question is we have noticed some viewership share loss in Marathi and Bangla and particularly loss in Marathi is surprising, so what are the steps you are taking to arrest or to rather sort of recover viewership and if you could sort of….

Punit Goenka: Content Jay, so we have to work on our content pipeline. Obviously, the current pipeline seems jaded to the viewers and therefore they have chosen to go and consume more on competition. But the good part is we have not lost reach on the channel as yet so therefore we will have to go and revamp the content there. As you will see in Bangla, we have already seen the recovery happening and in a month or two itself we will see significant recovery also taking place. For Marathi also I expect the next quarter or two, the recovery will come back.

Jay Doshi: Is the team stable or is there any attrition you have seen in the team in those regional markets?

Punit Goenka: No, there is no attrition that one can talk about at the senior level or the mid level. There may have been attrition at the lower level but that’s part and parcel of life.

Jay Doshi: Just final bookkeeping question, what are advances for content cost? Last update we had as of March, 2020 was some Rs. 4.2 billion. I'm talking about the advances that you had given last year and some residual part was still there. So just an update whether those advances still remain as advances or you got procured content against it?

Rohit Gupta: So overall our inventory advances and deposits have been coming down quarter on quarter and if you see from the March quarter where it was about 64 billion, it is now 60 billion. So there is a reduction which is there. On the advances level, the overall advances as at March was 10.6 billion which included the 4.2 billion you just spoke about and that has come down now to 8.3 billion.

Jay Doshi: But has 4.2 billion come-off or that 4.2 billion is broadly at same level?

Rohit Gupta: So the 4.2 billion is right now at the same level, actually it has reduced in the month of October and we expect that with the inventorization that we have planned it will come down further by the end of the fiscal.

Jay Doshi: I missed the opening remarks, you mentioned about receivables from Dish and it has come down, if you could please repeat it once.

Rohit Gupta: Dish receivables have been down. It was about 584 crores in March 2020 and it is right now, at a gross level, at 498 crores. We had taken a provision of 37 crores and if you exclude that it should be about 460 crores net of provisions.

Jay Doshi: And should we expect at least 50 crores reduction in this number quarter-to-quarter in line with what you've guided that those receivables would come to normalize levels in 6 to 8 quarters? Is that a reasonable expectation to expect that this number receivable from Dish should come off every quarter by at least 50 crores?

Punit Goenka: I don't want to put a number there Jay but it will certainly come off significantly before the end of March fiscal itself and you will see quarter-on-quarter we will make those declarations going forward.

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

Vivekanand: My question pertains to ZEE5's international operations. So given that we are seeing this sharp increase in viewership, is it due to additional distribution in some geographies where we were not present earlier or is it entirely organic? And Punit if you could throw some light on how you plan to monetize the international subscription market given that we have a very big diaspora and very strong brand internationally.

Punit Goenka: So of the viewership the growth that you have witnessed of almost 36%, a significant part of it has come from organic basis, a very little bit of it maybe inorganic. The monetization strategy varies from market to market as you would agree because the ARPU levels, the consumption levels etc. vary from market to market. We intend to monetize on both advertising and subscription for the international market but it is currently being planned and will be executed over a period of time therefore difficult to give you a number. But certainly this is what will start bringing the growth back in the international market which has been stagnated over the last few years.

Vivekanand: Let me frame it a bit differently; right now ZEE5 contributes around 6%- 7% of your total top-line accounts for around 20% of your operating investments. Is this materially different for your international business; is the revenue contribution of ZEE5 to your international business materially higher or lower and investment?

Punit Goenka: Currently it's much lower. It's not an apple-to-apple comparison. The biggest territory for example United States we have not even launched yet, so you can't compare it to the linear business platform.

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

Yogesh Kirve: In the annual report for 2019-20, so there was a corporate guarantee mentioned to Siti Network for about 116 crores. The commitment to funding which is alluded to during the entry note if the corresponding refers to the same thing or this is an additional sort of an arrangement?

Rohit Gupta: What was mentioned in the annual report in the March accounts, there was the DSRA liability like you rightly said of more than 100 crores. So that is the amount which has now become 971 million and as a matter of abundant caution, we have taken provision for that in this quarter.

Yogesh Kirve: So, it would be part of the balance sheet?

Punit Goenka: Yes it will be a part of the balance sheet.

Rohit Gupta: And it has moved out of the contingent liability now.

Yogesh Kirve: Secondly regarding this ZEE5, regarding the MAUs and DAUs, I don't know to what extent these are comparable to the numbers you have shared over the last 4-5 quarters. But then on the face of it the trend has not been very encouraging. So in light of this is there any change of strategy as far as content is that we might consider or we are going to stick with the past that we have decided for?

Punit Goenka: What we are implementing currently we have to first get that right itself. So I think plans that we have made for ZEE5 itself are pretty large and we will continue on those execution path and of course we reset for any mistake so anything that happens as we go along. So we will continuously keep evolving the strategy going forward. It's not just content, it's also a lot of distribution and partnerships that enable us the trend line of growth on numbers and our numbers we are sharing openly now, both from the P&L perspective as well as from a viewership perspective and those are available openly and freely now from the investor relations team.

Yogesh Kirve: Regarding our focus on the original shows, do we think we are on the right track as far as the investments in the original shows are concerned, the assessment or kind of experience we had over the last couple of quarters?

Punit Goenka: There is no right or wrong in the content business let me tell you that. We get it wrong also, we get it right also. Some shows work for us, some shows don't work for us and that's a matter of the nature of the business that we are in. it's a creative business and you don't get it right all the time. So, we have to course correct as we go along and our original content and movies are the USP and the key drivers for the subscription income for the platform.

Yogesh Kirve: Can you give us any guidance or indication regarding what should be at least the directionally are there any losses, are these the peak or it would remain at this level in the coming years?

Punit Goenka: No, I don't think that anything has peaked, we are still investing heavily behind this business. We have always guided to you that despite all these investments etc. we will still as a company overall generate a healthy EBITDA margin and year-on-year we have been guiding for our EBITDA margins and we will continue to do the same.

Yogesh Kirve: Finally, Bijal so I think there has been a restatement in the subscription revenue, so is it possible to share the international and the domestic component of these subscriptions on this call or after the call that could be helpful.

Bijal Shah: So entire subscription revenue which has been reclassified is all relating to India business and this entire amount is pertaining to India only.

Moderator: The next question is from the line of GV Giri from IIFL. Please go ahead.

GV Giri: Punit couple of questions on your corporate governance part; can you give an update on the overall progress on that front? And secondly specifically on your board reorganization and thirdly what's your likely run rate for movies production in the next 2 years in terms of spending compared to the trend of the last 2 years and lastly why is your ZEE5 revenue up by only 4% sequentially?

Punit Goenka: In terms of corporate governance whatever we have guided for we are continuing to stand by that. We are declaring all the data as was committed including the balance sheet, etc., all those are available to you. In terms of the board constitution it's a continuing process, the completion of which has been committed for by the end of the fiscal year and we will be inducting more members on the board going forward. We don't have an update on any names as of now so nothing for me to share there.

On the run rate for the movie production business we expect to ramp that up very significantly in the coming years as soon as normalcy returns in the theatrical part of the value chain. Once theatres have opened up, we will be ramping up and not just in Hindi but even in regional languages. Quantum, we can discuss off line I don't have to share these numbers as of now sitting here. And ZEE5 revenue is up only 4% because one of the Telcos deals came to an end and we did not renew post August and therefore we will have to make up that revenue through our B2C plans and not through the Telco fixed fee model basis. Have I missed anything?

GV Giri: I just want to do a quick follow-up on ZEE5. One, if you look back what mistakes or what positives have you under your belt compared to your outlook 2 years back and secondly on your relationship with Telcos in general, have you evaluated if direct to consumers is a superior option compared with Telcos because there is always this thing about this Google tax, this 30% that you can probably avoid and on the other hand I don't know what the subscriber information that you get how that compares with the direct approach. So keeping all this in mind how do you view the two options?

Punit Goenka: Certainly we do evaluate every time a deal comes up for renewal or negotiation and that's the time we do the tradeoff analysis on what is better for us to continue the relationship through a Telco or to go direct B2C. In this situation we have chosen to go B2C. I can't divulge more information than that. Therefore that's a constant evaluation that we do every time these decisions need to be made. So it's a constant thing that we continue to do. Obviously in terms of data and all we get, in terms of the Telco deals the data is restricted because of the secrecy laws etc. which are now prevalent. In a B2C deal the data that we get is far more rich and therefore much better for a monetization perspective.

Moderator: The next question is from the line of Rohit Dokania from DAM Capital. Please go ahead.

Rohit Dokania: So sorry to harp on this but just to be clear, on liabilities from Siti in that sense has been written off because anyways we are on cash and carry now. Is that a fair statement to make both from may be a contingent side or also over the receivable side?

Punit Goenka: You are absolutely right on the receivable side and these are provisions that have been made, we have not written off anything. We will make all endeavors to recover this money. What on the other account of DSRA bank backed loans there is still a certain outstanding which is left? Rohit you can confirm the numbers.

Rohit Gupta: We have also mentioned in to our financials, the overall outstanding of this DSRA backed loans is now come down to 2059 million and out of that the DSRA liability that we will had was 971 million. So we have taken, like I said as a matter of abundant caution, we have taken up provision of the DSRA liability that stands as at 30th September.

Rohit Dokania: So it's trying to say about 108 crores is still left. I'm just saying just a just to understand from a worst-case scenario if at all?

Rohit Gupta: These are these outstanding which are not due for next few years and therefore doesn't form part of the DSRA liability.

Punit Goenka: But you are right in your point that you made.

Rohit Dokania: The other question is slightly related to previous participant. So I think this year's loss run rate for ZEE5 is in that range about 700-800 crores, give or take. So just wanted to understand will this year be like peak loss year for ZEE5 or have you articulated that overall margin level at the company would be pretty healthy. So absolute losses in ZEE5 could also increase given the scale of business could increase?

Punit Goenka: It's a trade-off, right. We will evaluate what the opportunity is and what money we are willing to put on that after next year going forward. I don't think we have guided a number as you are specifically talking about but certainly we would want to get back to our aspiration of being a highly profitable EBITDA margin earning company but the investments in ZEE5 need to be made to protect the future of the company and the other businesses and those will be done. If they have any impact to the margin we will certainly call it out to you before we take those decisions.

Rohit Dokania: If you can talk about on any update on the NTO 2.0 and also if I am not wrong during Q1 call you had said that post Q2 you didn't give the guidance of the domestic like subscription growth. So comments on this please?

Bijal Shah: So on NTO 2.0, at this point of time there is really nothing which we can share and the court has reserved the verdict and we are awaiting the verdict. As far as growth for the year is concerned what has happened is when we implemented NTO 1.0 we had a complete blue print that how we will take up our pricing and how product launches will happen over a period of time and how we will drive our subscription revenue, and in fact what you saw over last year that in third and fourth quarter we launched four new channels. So that was also a part of it. Now because of NTO 2.0 all the plans of our bouquet as well as taking up the pricing is on hold and that is the reason why subscription revenue for this year would be impacted on the domestic broadcast side; on the digital side subscription revenue continue to grow at a healthy rate. So once this NTO 2.0 is done and probably let's say maybe a quarter of disruptions which would actually go back to healthy growth which we have been delivering over last several years.

Rohit Dokania: So fair to say it is difficult to put a number this year?

Bijal Shah: FY21 would be, this year would be difficult in terms of growth because of NTO 2.0 effectively freezing the pricing but going forward, what we have guided about low double-digit to low-teens is quite possible. But NTO 2.0 should be out of the way, it should have been implemented or it should be disposed of, whichever way. Under both the scenario is we should be able to drive our growth significantly.

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

Naval Seth: First on content, as you alluded earlier that you are refreshing content which might be dated or the subscriber or consumer is not liking, any comments over here that were we slow in terms of refreshing our content or competition has become very aggressive because first we saw this trend in Hindi GEC and now into regional markets and especially Marathi which is your core market, so any comments here?

Punit Goenka: Yes, you are right in part of it. In fact all of our markets are our core markets. None of the markets where we operate under are non-core to us but certainly the new lineup that the competition has come with post the lockdown has refreshed the content for them and the consumers have preferred that over the legacy content that we may have been serving and as you know there is always an up and down in this kind of a business so we are confident that we will regain our viewership back.

Naval Seth: Continuation to this, can you state the number of fresh content hours in these two markets Marathi and Bengali; what is right now and what it was say pre-COVID?

Punit Goenka: I won't have the numbers readily but I am sure you can take it off-line with the Investor Relations team.

Bijal Shah: But just to give you an overall idea there has not been any meaningful reduction anywhere in terms of say Marathi or Bengali market that we have not cut down our content meaningfully. There might be some optimization looking at advertising market but nothing meaningfully.

Naval Seth: Any update on SugarBox thought process how we are tracking there? Last time it was stated that 4Q we will see some traction there so any thoughts there?

Punit Goenka: It is still linked to the railway tender as I have stated in my last meeting as well. So we are still awaiting an update on that from the railways.

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

Kunal Vora: Just wanted to check on subscription. What is the remaining opportunity in ends of subscription? Will the growth rate increase by more subscribers or do you expect

ARPU increase to kick in like the FY22 especially? And second on other sales and services, this quarter was low, how should we look at it in second half? And you talked about EBITDA margin reaching 30%. Are you on track to get FY22?

Bijal Shah: On the subscription, see on the domestic broadcast side subscription opportunity is still at both the places, we have long way to go as far as television penetration is concerned, and in most of the television penetration really most of the people take up Pay TV. So we have still 100 million homes who do not have TV. So from a longer-term perspective there is a very significant opportunity as far as more subscribers are concerned in domestic broadcast business as well as pricing side we think that the ARPUs are pretty low. As I said that we had already planned our price increases in some of the markets and also it is not only about price, we are going to offer more product, so like in Tamil Nadu market we have launched a movie channel. So it is also driven by more product launches. So overall our ARPU from this existing subscriber itself will grow. So that is as far as domestic broadcast is concerned. Similarly in digital, as you would agree, there is a very long runway for growth. Starting with subscription, so maybe for the next few years we would be primarily focused on driving number of subscription rather than on pricing and once that market starts maturing, pricing would also be an opportunity because again there the pricing is pretty competitive and with respect to the income levels it is still very low. So an overall pricing as well as subscriber number both the places we have lot of headroom. You asked four questions probably I forgot other three. Can you repeat your questions?

Kunal Vora: Just wanted to get some sense on other sales and services which was low for this quarter. How do we look at it in the second half?

Bijal Shah: So there is nothing which has changed in other sales and services. If you are comparing YoY there are two things. One is in last year we had a movie called Article 15 which had syndication revenue which are theatrical revenue which was sitting in our other sales and services and on top of that there was a ZEE Music company's revenue classified as other sales and services which from this quarter has been classified as subscription revenue and that is the reason why you are actually seeing a dip. Going forward other sales and services revenue would depend on two things which are the month where we are releasing big movies and if there is any syndication income. So if you are aware that theaters are right now closed and this quarter we did not have any big movie for release even on direct to digital. That is the reason why the sales and services, other services has gone down.

Kunal Vora: On EBITDA margins considering the increased investments in OTT. Are you still on track to get to 30% in fiscal '22?

Bijal Shah: On EBITDA margin what we have said that for the year that every quarter we should see an improvement in margins and that's where we are. Once FY22 is a normal year and we do not have any disruption may be on the advertising side or subscription side, our margin trajectory should be returning to normal. That's why typically we tied about margin for the next year in fourth quarter. So we are right now just commencing our planning for the coming year and probably in fourth quarter con-call we will give you a very clear-cut number that what kind of margin we should look for. But overall, there is really no change in margin trajectory at this point of time saved for the COVID related impact.

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

Alankar Garude: Punit my first question is on ZEE5. Now when we had launched ZEE5 in February 2018 we had commented that typically the breakeven would be in 3 to 5 years and then after that we had commented it would be towards the later end of that time period so closer to 5 years. So would you still maintain that ZEE5 is on track to achieve breakeven by say FY23 end?

Punit Goenka: It's a double-edged sword because we are forecasting for so much ahead, it's difficult to say whether my assumptions in 2018 are still valid but certainly the revenue and the things are tracking very well. In terms of our strategies we will still focus that FY24 we exit the year with the breakeven kind of a number but overall it may be delayed by about a year from the first forecast that we had given in 2018.

Alankar Garude: So basically FY24 broadly is the year to look at for breakeven?

Punit Goenka: Again I am qualifying that by saying it's based on assumptions they are making today for the next 4 years.

Alankar Garude: Because of COVID and maybe some other reasons as well, as far as some monetization deals on infra or education which the promoters were looking at, we have really haven't seen anything fructify. So does it mean that the possibility of the promoters looking to add further stake in ZEE is unlikely at least over the medium-term?

Punit Goenka: I have no clue to those deals if it all any and I do not have any information or any plans on the promoters adding their stake on ZEE. This call is strictly for the performance of Quarter 2.

Alankar Garude: On the ad-cap I think earlier you had mentioned that if it is implemented there won't be any impact. So would you still be maintaining that?

Punit Goenka: Absolutely because we are very much in line with the ad-caps which already exist in the country.

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

Vivekanand: My question is on the restructuring that we have done. So you have spoken about the aggregating or aggregating content creation and also streamlining the monetization of it. So right now when we look at content creation, the respective businesses where the content is created that's where the content creation responsibility sets, is it. How is it meaningfully different from how you operate today? Punit can you talk about how the P&Ls will look like, the content budgets and also your approach towards monetization?

Punit Goenka: So what we have done is we are just replicating how we have succeeded in the regionalization of the company and currently what was happening is that because we are making just a little bit of content compared to the quantum of content we make for TV it was all centralized at Mumbai. Going forward we believe that the right model is for it to be decentralized completely and therefore the synergies can be brought in much more efficiently if it is decentralized at the end of where the content actually is getting created and that's how we are just realigning the entire digital and the linear ecosystem of content creation. Where earlier two independent teams were working, now it's going to be a common team that is going to deliver content for both linear as well as the digital part. On the P&L side of the business, to all of you I was responsible for P&L along with the CFO Mr. Rohit Gupta, nothing changes, we are both responsible to you.

Vivekanand: Will this mean that you want to meaningfully step up the percentage of content that you create in-house versus sourcing externally and is it very different from for your regional markets versus Hindi proportion of our own content that you create?

Punit Goenka: I don't have an answer, there is no ABC answer that I can give you, a textbook answer but it's for those teams to derive, based on the clustering of content taste that is required for each market, how that content will be created, whether it will be created in-house or outsourced to third parties will depend on who gets us the best idea. At the end of the day I am concerned with best content that can attract the maximum number of viewers or number of eyeballs and that's how we take those decisions. I don't think we start from the fact saying that I want to produce 20% in-house and that's how, so we don't start with those strategies, we start with even so many eyeballs and now let's go find the best idea for this to be achieved.

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

Jay Doshi: My question is that there is a sharp, about 30% increase in DAUs of ZEE5 and about 36% increase in engagement time per user. So overall viewership volumes on ZEE5 would have gone up significantly on a sequential basis and at the same time we have also seen improvement in advertising environment from 1Q to 2Q. So I am a little surprised that it is not translate into increase in revenues for ZEE5 from 1Q to 2Q and normally this kind of increase in volumes should ideally reflect in sequential increase in revenue. So if you can help us understand what's going on there on monetization front?

Bijal Shah: Number one, Punit initially mentioned that we had a Telco deal which we evaluated and we decided that we should rather go for subscriber on our own so that has an impact and that has led to decline in the revenue in the subscription side. Now as we have said so many times that our revenues on the digital is significantly tilted in favor of subscription. So as you rightly pointed out that we have seen significant increase in our viewership and consequently video views and also consequently there is an increase in ad revenues up there. But the revenue in digital is significantly tilted in favor of subscription and that is the reason why you are not seeing that impact translating into revenue. Also it would be very difficult, see we have given revenue numbers and cost number only for two quarters. So every quarter in a new business you will always see something happening maybe at some point of time we are incurring more cost because we are launching a new product which is what happened during the quarter; we had 'Club 365' campaign going on which led to higher cost and similarly some contracts coming, some contracts not getting renewed. So it's bit difficult to see absolutely linear growth from one quarter to another. Over a period of time you will get to see the trajectory of growth is very healthy. I would say that just wait for a few more quarters and you will get a sense of clearly how fast ZEE5 revenues are growing.

Jay Doshi: Any correlation between the increase in ad and publicity expense and higher losses for ZEE5. Is that largely because of higher investments in ZEE5 or is it related to TV business?

Bijal Shah: It is relating to both the businesses. See number one our ad and publicity expenses was exceptionally low in Q2. Now that happens at some point of time when we do not have lot of launches or we do not have a big show or anything which we really need to promote. On top of that we have actually seen a very significant increase in our advertising publicity cost in ZEE5 on account of the fact that we had two big campaigns which we were running. So after COVID we had campaign for bringing back the viewer for our TV shows and all and then there was a campaign for Rs. 365 pack which we have launched, and also there were 25 shows which were launched during the quarter. So there was a publicity expense relating to them also, so due to that we have seen a significant increase in cost during the quarter and that is also translating into higher losses at ZEE5.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I would now like to hand the conference over to Mr. Bijal Shah for closing comments.

Bijal Shah: Thank you everyone for your interest. If you have any more questions please do reach out to Investor Relations team. Thank you and please take care of yourself during this pandemic.

Moderator: Thank you. On behalf of ZEE Entertainment Enterprises Limited that concludes this conference. Thank you all for joining. You may now disconnect your lines.