



Extraordinary Together

Zee Entertainment Enterprises Limited

Zee Entertainment Enterprises Ltd

Q3FY19 Earnings Conference Call

January 15, 2019

Edited Transcript

MANAGEMENT:

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ZEEL Q3FY19 Earnings Conference Call - January 15, 2019

Moderator: Ladies and Gentlemen, Good Day. And welcome to the Zee Entertainment Enterprises Limited Q3 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand conference over to Mr. Bijal Shah. Thank you and over to you, Sir.

Bijal Shah: Thanks, Janis. Hello, everyone, and welcome to Zee Entertainment's earnings call to discuss the mid-performance in Q3 FY19. Joining us today on this call is Mr. Punit Goenka – Managing Director and CEO of ZEEL, Mr. Rohit Gupta – Chief Finance Officer, along with senior management of the company. We will start with a brief statement from Mr. Goenka on the third quarter performance. Subsequently, we will open the call for questions.

Before I pass it onto Mr. Goenka, I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be seen in context of the risk that we face.

Thank you, and over to you, Mr. Goenka.

Punit Goenka: I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of the third quarter of fiscal 2019.

I am really pleased with our performance this quarter which further strengthens our position as India’s leading entertainment content company. Our television business continues to consolidate its number one position and with 20.2% all-India viewership share, it is the undisputed leader. Launch of our Malayalam channel, Zee Keralam, makes us the biggest network with presence in 9 Indian language markets. We were the leader in the Hindi segment during the quarter and our performance in regional language markets continues to be good, particularly in Kannada and Tamil, where we became the leader in the Urban market and the number 2 channel respectively, for the first time. While our network share is at an all-time high we believe that our portfolio has the potential to further grow, and the launch of Zee Keralam will surely help it.

After much delay, TRAI’s tariff order is now set to be implemented across the country next month which is a positive step for the industry in the long term and will be



beneficial for everyone. While it will take some time for the new system to settle, we are working with all our partners for its smooth implementation.

Now coming to ZEE5. With 56mn MAUs in the month of December, ZEE5 is quickly establishing itself as one of the leading digital entertainment platforms in the country. ZEE5 has already become the biggest producer of Indian content amongst the digital platforms and the content offering will keep multiplying going forward. Our original content is getting much love from both audience and critics alike. While *Rangbaaz* and *Karenjit Kaur* have helped ZEE5 carve a niche in the biopic genre, fast paced thrillers like *Kaali* and *Date with Saie* have set the expectations high for the regional audience. ZEE5 is the only OTT platform creating content in 6 Indian languages which will enable it to become the go to platform for consumers looking for differentiated content across languages.

We are expanding our list of partnerships with telcos, OEMs, ISPs and other players in the digital content eco-system to make ZEE5 accessible to a wider audience. We are also experimenting with innovative pricing and subscription models. In a first of its kind initiative, ZEE5 launched tiered regional subscription packs for south Indian users which enable consumers to watch premium content, including before TV shows and movies, in a language of their choice at half the price. In partnership with a leading train ticketing platform, we have also launched 7-day subscription packs which allows users to download and consume content on the go. We are confident that our expanding content offerings and partnerships will enable ZEE5 to establish leadership in the digital entertainment space.

Now moving to financial performance of the business.

Domestic advertising revenue growth of around 21% was driven by our increasing television viewership share and contribution from ZEE5. The outlook for the next year continues to be upbeat and our endeavor is to outpace the growth of the industry. International advertising growth of 40% was on account of higher traction in Europe, US and APAC regions. Domestic subscription growth of 29% was helped by a low base and monetization of phase III markets.

EBITDA for the quarter grew by 26.9% to Rs 7.bn, even as we continue to invest in digital business. Our margins at 34.8% expanded by 250 bps driven by the strong performance of our broadcast business. Seeing the positive response to ZEE5, we



have scaled up our investments in digital business and the content slate for next year will be significantly bigger than FY19.

The cash & treasury investments stand at Rs. 29.4 bn.

Regarding the developments related to the sale of promoter's stake, the discussions with potential partners are progressing well and we are confident that we will find a suitable partner for the promoters as well as the company.

With this opening comment, we would like to address any questions you have.

Moderator: Thank you very much, Ladies & gentlemen. We will now begin the question-and-answer session. We take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the domestic advertising. So are you already getting benefit of Karnataka and Tamil Nadu share gains? And in Karnataka, this leadership gain, has it come because of any one-off, movie, etc, or is it because of sustainable fiction content?

Punit Goenka: So the Karnataka gain is on the back of sustainable fiction content, and therefore, it should sustain going forward as well. We have not yet fully monetized the Tamil as well as the Karnataka gains. Karnataka gain is very recent and you will see the impact of that coming in the coming quarters itself.

Abneesh Roy: And on the international ad revenue, you were in Rs. 50 crores to Rs. 60 crores for many quarters, suddenly you have become Rs. 91 crores. So again, any one-off here? Is it because of Christmas? Of course, that did not benefit in the base quarter, so is this number again sustainable?

Punit Goenka: I think the drop in numbers was because of the Middle East, and we have seen some recovery happening there. But we have seen great traction for our Category II platforms in the African market, and Zee One in Germany has given us good returns. And these should be sustainable going forward.

Abneesh Roy: My second question is on ZEE5. Numbers are really good quarter-on-quarter, only one thing I wanted to ask here, average time spent per user has remained stagnant at 31 minutes. So question is, how does it compare to some of your other peers in the



top five? And should it have grown on quarter-on-quarter, so is it a disappointment or is it in line with expectation?

Punit Goenka: So Abneesh, I think it is a function that when we push reach, it does compromise time spent to a bit, because the total time spent then gets divided over a larger base. But having said that, I am not concerned about it. I think in the coming quarters you will see this growing. Also keep in mind that with Diwali and Christmas, just like in television, you will see some drop-off of consumption for the festive period. And that, too, would have contributed. For the competition, I do not have the number readily available, but we are catching up fast with them.

Abneesh Roy: And my last question is on e-commerce. So two factors here, one, e-commerce ads have definitely helped you in the growth. So now with the FDI regulation changing for e-commerce, do you see a risk, because next 3-4 months, pre-election, I don't see any reprieve happening there. And second is, if the footfall were to reduce on, say, Amazon Prime or any of the other retail-led OTT apps, is that good for you? Because on Amazon Prime, a lot of footfall was happening because of this discount. And if the footfall doesn't happen, does the consumption go down or is it a very dedicated consumption anyway?

Punit Goenka: I don't think we can compare apples-to-apples with what happens on competing OTTs and how that impacts us. I think the audience base that we get is unique to the content that we are offering, because every content is exclusive to the platform. So what Amazon offers or Netflix offers, I cannot offer, and what I offer is something they can't offer. So I don't think one can just derive behavior patterns based on what happens on one OTT to the other. On the e-commerce side, with the regulation changing, I do not expect much change on the advertising front given that it is a small base of between 6% to 7%, and that doesn't really move the needle in a big way for us, barring, probably us trying to work harder to replace that with some other category.

Moderator: Thank you. Next question is from the line of Vivekanand from Ambit Capital. Please go ahead.

Vivekanand Subbraman: My questions are centered around ZEE5. You mentioned that you are planning to scale up your investments. So, could you just take stock of the current number of shows that you have on ZEE5 versus what you had targeted? You had said 90 shows by March 2019, where are we on that target? And do you have any new targets to



outline for fiscal 2020? The second question is on the advertising monetization for ZEE5. Now, Punit, in recent media interviews you highlighted that the ad monetization engine is what could initially fire for ZEE5, subscription could come in later. So in that light where are we on that and how many advertisers do we have on ZEE5 compared to that on television? And any thoughts on how one should look at the ad formats, the demands that advertisers have from ZEE5 vis-à-vis your TV advertisers?

Punit Goenka:

On the content side, Vivek, we were able to populate only about 31 pieces of content out of the 90 that we planned for the current fiscal up to December 31st. I do not think we will reach the number of 90. And we course corrected and even dropped some of the shows that we were making, based on our learnings from consumption patterns. We were able to do about 38 film premieres on the digital platform up to December 31st. Going forward, our endeavor is that in the next fiscal we should be running at about six web series a month that we want to target in the six languages that we have talked about. So that is 6 times 12, 72 is the minimum that we want to look at for the coming fiscal. For movies, they are still in the pipeline of acquisition, so I can't give you a number right now. So that is what it looks like on the content side.

Apart from this, we will also be ramping up our international content that we are sourcing from the international markets, not just from Hollywood but from other parts of the world as well. And then we will be commissioning even digital films that will be exclusive to our platform as ZEE5 exclusive and original films.

On the advertising front, we are already monetizing the inventory on the video views that we are generating, and we will continue to do that. I think the details that you are seeking, I won't have that readily available. But if you can take it from Bijal and his team offline, that will be better. But we are tracking well on the advertising monetization. So in my opening remarks, the 21% growth that I talked about at advertising is a function of both television as well as ZEE5.

Vivekanand Subbraman: All right. Punit, just one small follow-up, does the 31 originals, does it count shows like What's Up Velakkari and What's Up Bai as two different shows or are they counted as one show?

Punit Goenka:

No dubbed version is not counted as two shows, it is counted as one show.



Moderator: Thank you. Next question is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: My first question, if you can just provide some initial thoughts on the TRAI tariff order and how that's been progressing? And how do you see the next three to six months for the industry as a whole, and particularly for ZEE? Second question, on the market share gains which you have been consistently doing for the last few quarters, you mentioned that there is more room for growth, if you can just specify which are the pockets that you think could drive that additional market share gains, would it be the South Indian genres, Kerala and Tamil particularly, or are there other pockets as well? And lastly, if you can give us some color of the underlying television ad and subscription growth, ex of the digital growth that you have shown for both your ad and subscription revenues, that will be very helpful.

Punit Goenka: So, Manish, on the last part, please excuse me, I will not be able to give you that number break-up for competitive reasons. And as I have said, over a period of time we will share with you detailed P&L for digital and broadcast separately. You have to bear with me for a couple of quarters more on that. On the tariff order side, I think we are working closely with all the DPOs, whether it be satellite or cable. We believe that there will be some hiccups for the next three to six months, but both the cable companies and the DTH companies are ramping up fast enough to have put out bouquets in the market. They also believe that rather than it being an a-la-carte model, it will be bouquet model that will prevail, and that's beneficial for the industry overall. How it plays out, we will only know on 31st midnight or 1st morning, when we actually will have to switch off the pay channels as per the regulation. And we will know what the conversion rates are going to be after that. If you recall, Manish, during DAS implementation also, it was a function of the consumer not making the choice till the day the actual thing switches off and he cannot get his favorite shows or favorite content. So, I do expect that large conversion to happen only post switch-off, and that's in-line with our that DAS strategy also that we had gone with. Sorry, I forgot the middle question?

Manish Adukia: Sure. I was just checking about the market share gains that you highlighted, right? So I mean, you said that there is more room for growth there on the market share, so what are the pockets that could drive those market share gains?

Punit Goenka: So when I push Mr. Punit Misra, I push him for every single channel market share gain. So it's not as if we expect it to come from one genre or the other genre, we push for



market share gains across the portfolio of our bouquet. Some fire, some do not fire. It's a portfolio approach that we play on. So I can't comment where will it come from. I hope all of them fire and we get maximum gains.

Manish Adukia: Right. That's very helpful, Punit. Just a quick follow-up, and while I appreciate that at this point in time, you don't want to disclose the split between television and digital, but for the underlying industry, has the ad revenue growth remained in that range of low to mid-teens, is that fair to say? And you have grown faster than that?

Punit Goenka: Yes, we believe so. That is what it is.

Moderator: Thank you. Our next question is from the line of Karan Taurani from Elara Capital. Please go ahead.

Karan Taurani: Sir, my question was pertaining two things. The first one was the margin headwinds that you would have from here on going ahead, given the digital content which is there. So, can you lay out some content investment plans, what are the kind of spends you are going to do on digital? And how will this exactly impact the margin negatively?

Punit Goenka: So, as I had guided earlier also, Karan, that we expect even the next fiscal to maintain our margin guidance to be at 30% plus, despite the investments that we are putting in the digital space.

Karan Taurani: Okay. The second question would be on the subscription revenue. So, this year primarily looks like a very good year, primarily because of catch-up revenues. What kind of growth can we expect next year in FY20 and FY21?

Punit Goenka: I think you are safe to build in low-teens kind of numbers.

Karan Taurani: Great. Just last one on the ad revenue front. So you have been outperforming industry average since a long time now, almost about six quarters of very good performance. What is the thing from here on? What kind of growth can we expect, in line with industry average? Or do you still target above-industry average growth given the pricing increase which you can have in the regional portfolio?

Punit Goenka: We will endeavor to be above the industry growth, definitely, Karan. And that would depend on what kind of market share gains that we have. So that is our endeavor and we will always try and achieve that.



Karan Taurani: Can you please highlight some of the key genres which will drive that kind of ad growth within your portfolio?

Punit Goenka: It is a combination of Hindi movies, regional GECs, the FTA market. I mean, I cannot pinpoint one genre, it is broad-based across the network.

Moderator: Thank you. Next question is from the line of Rajiv Sharma from SBI Capital Securities. Please go ahead.

Rajiv Sharma: Punit, just got a couple of very strategic questions. One is, when you compare the print sector with TV, so print has seen lower multiples, depressed multiples after the internet became popular, and they have struggled to create a profitable model in the OTT space, means the digital space. So, how do you see TV could be different? Even though long-term earnings, say, are 10% - 12%, why TV multiples may still not remain depressed? Just trying to understand your thoughts on this. And second, a strategic partner will be looking to leverage your production capabilities for digital. So, I know you have a ZEE5 and you are already leveraging that, but if you can just give some more color on that, it will be very helpful.

Punit Goenka: On the multiple side for television, you see, it is a function of whether television is growing as a medium or not. If you look at today, television penetration has reached just about shy of 200 million homes, and pay TV out of that is about 160 million homes. And that number is growing anywhere between 4% to 6%, given the year and how the economy has grown. So I think TV penetration itself is driving the growth for television. If you look at print, if you dissect it by language, take out English and look at just the vernacular, they are seeing a very healthy growth of double-digit or low double-digit kind of numbers. So from my perspective, I think it is not about television or digital, it is about video as a model. I think the days of text are gone and the next generations are all looking at video content, whether it be for news or for entertainment. And as long as that format of content remains, whether it be on TV or on the digital platform, it will succeed.

Rajiv Sharma: So, one other part of this was, print has found it very difficult to monetize on the digital side, except in US we have the New York Times believing in a subscription revenue and doing something. But in India we have seen the newspapers are struggling on that. So in TV, you mentioned the TV-OTT space, we are already seeing lot of money being spent, what do you think will drive profitability in this, apart from consolidation?



Punit Goenka: Profitability for OTT platforms will be driven from both advertising as well as subscription revenue. I mean, if we do not have a subscription model in place when we hit the critical mass, then it is going to be really difficult for us to sustain this only on advertising, because the reach of digital will never be comparable to the reach of television. Well, never is a strong word, sorry, let me change that to any time soon. You cannot expect the digital reach will reach to the level of television anytime soon. So therefore, it will remain a smaller than television kind of a market. And therefore, one has to look at a subscription model here as well. Just to give you a little perspective, print in India is very different from print in the western world. I know of very few countries that I can talk about, and you may know more than me, where newspaper is delivered to your doorstep for Rs. 2 a day. I mean, in New York you don't get newspaper delivered to your doorstep, you have to go and pick it up from the newsstand and you are probably paying \$5-\$6 kind of price for a New York Times. In that scenario, the business model of having an online subscription service works. But India, that's a bit different compared to that. So I don't think you can compare them rightly.

Rajiv Sharma: Yes. My second question was on your production capabilities, or strategic partner maybe you are looking at today in terms of leveraging for digital. You are already doing ZEE5, but just a broader understanding, some more color on that side?

Punit Goenka: So, I mean, yes, we do have significant production capabilities within the ecosystem. And while we do leverage it on our own platform, but it will be available, even for the strategic partner if they wanted us to create content for them, which necessarily does not go on our platform, it goes on their platform. We will be happy to do it for them.

Moderator: Thank you. Next question is from the line of Siddharth Bera from Nomura Securities. Please go ahead.

Siddharth Bera: My first question is on the ZEE5. So, is it fair to assume that we have started booking revenues from the telecom operators like Airtel in this quarter or they are yet to come in?

Punit Goenka: No, we have started booking revenues.

Siddhartah Bora: Okay. So sir, initially we had indicated that the EBITDA losses for the ZEE5 will be in the range of 300 bps to 400 bps in this year. So given that now we have started getting revenues from both the telecom operators and ad revenues, so will it be safe to



assume that despite higher investments next year our EBITDA losses will be in the same or a lesser range?

Punit Goenka: No, I do not think you can assume that. As I said in my opening remarks, we will be increasing our investments in ZEE5. Of course, I will give you a fresh guidance when we close the year out and what to expect in the coming year. But I will still maintain that despite our heightened investments, I still expect consolidated EBITDA margin for the company to be 30% plus.

Siddharth Bera: So, the losses for the ZEE5 will be in the same 300 bps to 400 bps range?

Punit Goenka: No, Siddharth, I am not saying that. I am simply saying that despite whatever the losses on ZEE5 will be, I will deliver this year 30% plus EBITDA margin.

Siddharth Bera: Okay, got it. Sir, the second question is on the traditional TV. We have done commendable performance with very high improving market share. So how has been the scenario in the past? I mean, is there a material scope of expansion from even these levels also? Just wanted to understand historically what has been our peak and where are we now?

Punit Goenka: Well, it is difficult to say what the peak or the ceiling is, because when we started six years back, we were in the 12% plus share. If you had asked me the same question when I was at 12%, will I achieve 20%? I would have probably said it's a mammoth task. But having achieved 20%, who knows what the ceiling is. And let's see what Punit Mishra and his team can deliver, how high they can go.

Siddharth Bera: Okay. So, sir, lastly, my question is on the asset sale. So sir, just wanted some color, I mean, we understand that you are in talk to sell off some of these assets, but some color if you can highlight, where in the process you are in terms of the sale of these three assets, that will really help?

Punit Goenka: Which three assets are you referring to?

Siddharth Bera: So the road and infra and power assets.

Punit Goenka: I think that those asset sales are on track as planned. And we should expect it to happen soon. Beyond that, on this call, I cannot give you much color. You can take it offline with Bijal if you like.



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Siddharth Bera: Okay. Sir, lastly, in other income we have seen a sharp jump in the quarter. Can you just highlight what is it or is it sustainable?

Rohit Gupta: So our other income includes the rent and interest income. And this quarter we have a one-time miscellaneous income, which has come from sale of our licenses. So that is what has taken the other income to a heightened level.

Siddharth Bera: Okay. So that will be how much, sir, the one-time sale of licenses?

Rohit Gupta: We do not want to quantify it but that explains a large part of it. There are two things, sale of export licenses and then there is also VAT refund which is explain the higher other income.

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

Alankar Garude: My first question is, it has been 11 months now since we launched ZEE5. And now based on the subscriber adoption so far, are you comfortable with the ZEE5 subscription price? So, basically, what I want to ask is, as things stand, are you open to either increasing or reducing the subscription rate depending on the off-take?

Punit Goenka: So, Alankar, actually the subscription service launched only in July. So it has just been six months. I think it is too early for me to start questioning whether it is the right price point or not. The feedback from consumers helped us in launching this regional pack strategy and that also is aiding the growth of subscription take-up in the market. So we will track it for another two quarters before coming to that discussion, internally also.

Alankar Garude: Understood, sir. And on that, can you share an update on the app's progress in the international markets?

Punit Goenka: Well, we have soft launched it in the international market so far. Our first commercial launch will be in the Asia Pacific region within this quarter, and then we will be entering other markets starting first quarter. Barring the United States, by the end of first quarter, next fiscal, we should have launched in the other territories commercially.

Alankar Garude: Okay. And any indication on the pricing?



- Punit Goenka:** The pricing ranges between \$2 to \$10, depending on territory.
- Alankar Garude:** Okay. My second question, Punit, how has been the initial response to Zee Keralam? And what is the number of original programming hours? And what has been the reach achieved by the channel so far?
- Punit Goenka:** Well, the total original hours we launched with was about 49, and we have grown that now to about 52 hours of original content. So, we had the opening reach of about 42% plus, and since then it's only grown from there.
- Moderator:** Thank you. Next question comes from Kunal Vohra from BNP Paribas. Please go ahead. Please go ahead.
- Kunal Vohra:** First is, can you share your thoughts on how the advertiser sentiment you are seeing as of now? I mean, certain sectors such as auto are seeing signs of slowdown. Also, consumer companies will have a higher base, which they will deal with. So if you can share your thoughts on ad revenue first going forward?
- Bijal Shah:** So far, we continue to see good traction on the ad revenue front. Visibility continues to remain pretty high and also the product launches which we are seeing in the market is very decent. So, at this point of time, overall ad growth remains pretty good. In fact, you mentioned auto, auto has done pretty well during third quarter itself. So right now we do not see much reason why low-teen to low double-digit growth for the market cannot be delivered for FY19.
- Punit Goenka:** Just to add to that, Kunal, you have mentioned auto is slowing down. But for us, auto as an overall sector is not relevant. Two-wheelers is more relevant for us than the overall sector. So, if you look at the two-wheeler segment, that has shown good traction.
- Kunal Vohra:** Okay, great. Second question, sir, you mentioned six launches per month, OTT, six different languages. Does it imply one new show per month per language? And do you think that is enough to maintain customer stickiness?
- Punit Goenka:** Well, I do not know anybody else who is doing even that much. But from where we are today, we believe this will definitely drive stickiness. And we can only get to know the actual outcome once we do it. So we will be tracking it closely and taking calls on whether it is enough or too much or optimum.



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Kunal Vohra: Sure. And last one on margins. This year you seem to be on track for well above 30% margins. Is it possible that we may see a repeat next year as well? Or do you think since the investments will be much larger we should be building in some margin declines next year?

Punit Goenka: As of now we are factoring a repeat next year. If there is any change to that guidance, I will come back to you. Till then you can factor in what we have guided for, 30% plus.

Kunal Vohra: But this year you will be like well above that? It looks like this year you will be well above it, so should we expect a decline next year compared to the levels which we are seeing right now?

Punit Goenka: Kunal, the year is not over yet.

Moderator: Thank you. Next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: A few questions from my side. Firstly, is there any sort of number that you want to quantify in terms of catch-up revenue that is sitting in the domestic subscription ad revenue growth?

Punit Goenka: We generally do not do it, Rohit, because it is a recurring thing for us. But it will be in the range of about Rs. 40 crores to Rs. 50-odd crores.

Bijal Shah: And also, it does not mean that it relates to a previous year, I mean, a good part of that will be relating to FY19 itself.

Rohit Dokania: Yes, obviously. So basically, it is not a one-off for the year but more so for the quarter, is how we should understand that number. Great, this is very helpful. The other thing was, if you can just very quickly highlight, so where exactly are we booking the telco revenues on the ZEE5 that you would be receiving? In which line item are you booking it? It's in the domestic subscription revenue front?

Punit Goenka: Yes, absolutely.

Rohit Dokania: Okay. And Punit, would you have any updates on Free Dish matter, I mean, has the government taken any view and if you were in the know on that?



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Punit Goenka: No, Rohit, we are as clueless as you are, probably more because we don't track it on a daily basis. The government's policy, they were supposed to come out with it last month, but I have no idea as to when they are going to announce it. So still waiting and seeing what is going to happen.

Rohit Dokania: Sure. And just one last question from my side on the promoter stake sale that you had announced earlier. So would we say now that the time is passing by, would we say that we are pretty confident that the earlier time lines that we had mentioned, we would be announce something concrete by then?

Punit Goenka: I think so. We should be able to do that in the same time line.

Moderator: Thank you. Next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jaykumar Doshi: First, a bookkeeping question. Where do you recognize the revenue for the content that you sell to Amazon Prime or Netflix, for instance, Dhadak as a movie? So, will it be other sales and syndication revenue, or will it be part of domestic subscription or?

Punit Goenka: No, Jay. it will just be other sales and services.

Jaykumar Doshi: Understood. Second is, Punit, I do not know if you have clarified earlier, maybe, I don't know, I was not on the call for the entire time. Are you open to financial investor for promoter stake sale or it will be strictly a strategic investor only?

Punit Goenka: Jay, as of now, we are only talking to strategics.

Jaykumar Doshi: Very helpful. And finally, just a suggestion, if maybe starting next quarter or first quarter of FY20, if you could start sharing daily active users and perhaps a split between app and web for ZEE5.

Punit Goenka: We will take your suggestion on record. Thank you.

Moderator: Thank you. Next question is from the line of Ali Asgar Shakir from Motilal Oswal Asset Management. Please go ahead.

Ali Asgar Shakir: My first question is on subscription revenue outlook in the medium-term. So just wanted to understand the drivers to growth for this low-teens growth that you mentioned, from the point of view of your phase III monetization, is that largely



complete? And do you see ARPU increase potential? So what other drivers you see basically for this low-teens growth?

Bijal Shah:

Yes, Ali. I mean, there are several drivers. So number one is, as Punit mentioned in the call, there is 4% to 5% growth in television home itself. And the gap between people who are not having television right now is fairly large, so that itself is a secular growth driver. That's number one. Number two, I mean, as DTH guys are seeding more and more HD boxes, so that will be one another important driver for overall subscription. And we will not be surprised if the 25% or 30% of India's television or pay TV base becomes HD in five year's time. So you know that HD rates are at least 2x to 3x of what we get for standard definition. So that will be one big driver. And third driver would be ARPU increase itself. We are fairly hopeful that the industry having consolidated so significantly and with this tariff order, most likely we will see that acceleration in ARPU growth and that acceleration in ARPU growth will also help us. So, all the things put together, we will be able to deliver that kind of a growth. And also, as we speak, full benefits of digitalization are yet to be realized, as you are seeing in the Phase III benefits we are realizing right now. That itself, Phase III and Phase IV will last for a while. So overall, low double-digit to low-teens kind of growth is quite sustainable.

Ali Asgar Shakir:

Okay. Quick follow-up over here, if we say ARPU increase is sort of at risk, then would you say this low-teens probably would go down to single digit? Or the point I am trying to understand is that how much relevance or importance is this ARPU increase in terms of your overall low-teens growth guidance?

Bijal Shah:

So, I mean, of course, it will go down a bit but not very significantly, because the ARPU growth we are talking about right now for our low-teens guidance in subscription is not really very large. And in fact, if the tariff order is implemented as it is envisaged, then probably in the medium-term gain on account of ARPU growth could be larger.

Ali Asgar Shakir:

Got it. This is helpful. Second is, just quickly on the OTT side. So Punit mentioned that we are seeing a very strong traction in the ZEE5 and we will scale up investments over there. On the other hand, he also mentioned that the target for 90 shows is sort of not possible to reach. And in fact, you will be doing about 72-odd in the next year. So maybe on one hand the investments are going up, but the number of shows are reducing. So does that, in a way, say that maybe the investment will be more towards high-cost and pull sort of the programs, which is what we probably also see more in your peers like Netflix and Amazon?



Punit Goenka: Yes, Ali. So, the 90 shows that we have planned was a combination of multiple formats of shows. And we quickly realized within three to four months of content being launched on the platform what kind of content is actually getting traction. So we have kind of repositioned our content strategy to pursue that. And we will be doing a lot more of tentpole. I think we have talked about one tentpole a quarter, but we will be doing a lot more tentpoles in multiple languages going forward now.

Ali Asgar Shakir: Okay. And a quick follow-up over there is, like you mentioned that even in terms of the monetization for OTT that we have seen has probably surprised you. I don't know if surprised, but at least the growth in terms of ad subscription revenue has been very healthy, that you mentioned, has contributed from there. So does that also mean, given that you mentioned that your overall margin guidance of plus 30% remains there, so then, your intensity of investment has a possibility of further increasing that you will probably use whatever you make in terms of your incremental growth or towards investment over there?

Punit Goenka: Yes, that is right. So, I mean, I did not say I was happy with the traction on the revenue side yet. I just said that it has started to happen. I think there is a long way to go for us to drive that to a significant number for the company over the next three to five years that I have guided for. But having said that, we will be investing back all of the revenues as well as more cash flows behind the ZEE5 content and marketing.

Moderator: Thank you. Next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: Punit, just wanted to understand, with the stake sale of Zee Entertainment, have we been able to narrow down to one or two people that we are talking or are we still talking to a large bunch?

Punit Goenka: Well, large is a relative term, Vikash. We are talking to more than one or two, but not to a very large number.

Vikash Mantri: If we are not able to complete this transaction, then are we going to remove ourselves from the block and go solo? Or it's just that we want to give ourselves the time? I just wanted to know is there a possibility we will not do any sale?

Punit Goenka: No, Vikash, as of now that's not a possibility. And I am pretty confident that by March-April of 2019 we should be able to have a concrete deal for announcement.



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

Sanjay Chawla: My first question is, Punit, just broadly, if you compare the digital platform and the TV broadcasting platform, what is your sense, where do you think we are in terms of the ad loading ratio for certain amount of hours of consumption on digital and the same amount of time consumed on TV? Where is the ad impression, ad loading ratio between the two, and where could this be over medium to long-term time frame? That is the first question. And the second question is, broadly, if you could give us a sense approximately where we would be in terms of the core broadcast EBITDA margins ex-OTT in the third quarter, are we closer to 35%, are we closer to 40%?

Punit Goenka: So, Sanjay, on the first part, one, the digital ad inventory is much lower than the television inventory. As you will know that advertising on television is programmed for 12 minutes per clock hour; whereas on digital, it will be on a per show basis and will be at best three ads that we sell in a show. Even at today's level we will see that 54% of fill levels on the digital side. Whereas on the TV, it will be upwards of 90% fill levels on the ad loading.

Sanjay Chawla: But is it three ads per hour you are referring -- sorry, per half hour of per program, right, sorry, per hour?

Punit Goenka: Per content piece or per stream, whatever you want to call it.

Bijal Shah: So AVOD content on ZEE5 is primarily our catch-up TV shows, which is around 22-minutes, on which you get to see minimum of three ads.

Sanjay Chawla: Okay, understood. And this is how you define the inventory level, right? And the fill rates will be a percentage of that?

Punit Goenka: Correct.

Sanjay Chawla: And over the medium to long term do you think this figure could go up in terms of number of ads the viewer is bombarded with on digital?

Punit Goenka: No. I think the digital ecosystem doesn't support more than this, and we want to stick with this kind of a number. If you look at what we have defined for ourselves, it's very different from the other digital ecosystem where three seconds counts as an impression. We have programmed it for six seconds as impression count. So it's far



more friendly for advertisers compared to other digital mediums. The fill levels definitely will improve over a period of time. I think we can expect it to be reaching the 80% to 90% levels in the coming year itself. But I do not expect to increase the load of inventory, at least in the foreseeable future.

Sanjay Chawla: Understood. And the second question, where would we be in terms of the EBITDA margin, ex-OTT?

Punit Goenka: Sanjay, be patient for a couple of more quarters, we will start giving it.

Sanjay Chawla: Okay. And just last housekeeping question. What was this cash and cash equivalent as of the December end, and the receivable figure and also the content inventory, if you can share?

Bijal Shah: So as Punit mentioned, that cash stands at around Rs. 29.4 billion. The rest of the things you can take offline because I don't have those numbers readily available with me.

Moderator: Thank you. Well, ladies and gentlemen, this was the last question for today. On behalf of Zee Entertainment Enterprises Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now. Thank you.