



Extraordinary Together

Zee Entertainment Enterprises Ltd

Q3FY20 Earnings Conference Call

January 22, 2020

Edited Transcript

MANAGEMENT:

Mr. Punit Goenka – Managing Director and CEO

Mr. Rohit Gupta – Chief Financial Officer

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



ZEEL Q3FY20 Earnings Conference Call - January 22, 2020

Moderator: Ladies and Gentlemen, Good Day and Welcome to Zee Entertainment Enterprises Limited Q3FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Bijal Shah: Thank you, Zaid. Hello, everyone and Welcome to Zee Entertainment’s Earnings Call to discuss Company’s performance in Q3 FY20. First of all, we would like to apologize for shifting the time of the call which happened due to reasons beyond our control.

Joining us today on this call is Mr. Punit Goenka – Managing Director and CEO of ZEEL and Mr. Rohit Gupta – Chief Financial Officer, along with senior management of the company. We will start with a brief statement from Mr. Goenka and subsequently we will open the call for questions.

Before I pass it on to Mr. Goenka, 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 context of risks that we face.

Thank you and over to you, Mr. Goenka.

Punit Goenka: Thank you, Bijal. 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 2020. Before we take on the quarterly update, I would like to sincerely thank everyone for reposing faith in Zee Entertainment over the past 12 months, a period where promoter level issues dominated the headlines instead of the operating performance of the company. It is heartening to see that despite so much noise, most of our valued shareholders stood by us and many of them saw the inherent value of the company and increase their shareholding. Your faith has further strengthened my resolve to continue working towards making Zee Entertainment as India’s leading global entertainment content company.

I would also like to take this opportunity to address some of the concerns that the street has expressed over the last few months regarding management continuity and board structure. Even at a significantly lower stake that the promoter family now



owns, I will continue to work for the company, as long as the shareholders desire. The board has appointed a reputed HR consultant to review and recommend my compensation structure and other terms of engagement in line with global best practices. As far as my team is concerned, we have not seen any churn in the senior management over the past year and I would like to assure everyone that I don't foresee any significant management change in the near future as well.

Now let me explain how the board structure will evolve. Going forward I will remain the sole representative of the promoter family on the board of the company. Mr. Chandra will not be putting up his name for re-election in the next fiscal and will assume the position of Chairman Emeritus. To further strengthen the board, new independent board members, with expertise in the field of either media or technology, will be inducted. This exercise is expected to be completed by the month of February. All these appointments will have to be ratified by the shareholders and will come up for their consideration at the forthcoming AGM.

Moving on to some of the questions you might have regarding the balance sheet. Over the last couple of years, we have received feedback on company's treasury policy. Management has incorporated these suggestions in the treasury policy and the same has been approved by the board. In a nutshell, it mandates that going forward entire surplus cash shall be invested in high quality highly liquid instruments. During the year, the audit committee had initiated an internal audit of advances. The internal audit report has confirmed compliance with all the processes. These transactions are being further verified by another external auditor and their report will be presented to the board by the first week of Feb. Lastly, on receivables from Dish TV and Siti Cable, we have performed a detailed analysis of recoverability. Based on the assessment, the company has determined that the entire balance is good and collectible. As per the plan agreed with Siti Cable and Dish TV, the arrears will be cleared over 12 and 24 months, respectively. Consequent to the delay in payment, the company has taken an expected credit loss charge of Rs. 376mn during the quarter. The Company will closely monitor the collection pattern from the said customers.

Now moving on to cash generation for the next year. Over the last couple of years, the company has been in an investment phase, acquiring content, primarily movies for expanding TV business and scaling up ZEE5 content library. While for ZEE5, movies are already one of the biggest propositions for the consumer, we have just launched



3 movie channels in regional markets to monetize the content that we have acquired. FY20 will be the last year of disproportionate increase in inventory and I expect that from next fiscal onwards, the number of inventory days will start reducing. In FY21, we expect that over 50% of PAT should get converted to cash, significantly improving the cash conversion ratio.

Now coming to the operating performance. Third quarter is normally a strong growth period for us, however, the tough macro-economic environment led to a decline in ad revenues. Most of our advertisers are going through a slow-growth period and that has led to a cut in advertising spends. I believe that the worst phase is behind us and we will start seeing an uptick in growth from the next quarter. The proposed changes to the tariff order by TRAI are being challenged in the court and we are awaiting the final verdict. However, I am confident that our strong portfolio of channels across markets will enable us to navigate any regulatory changes in the most efficient manner.

Despite the slowdown, we continue to make investments in businesses where we see potential for growth. Working with our strategy to entrench ourselves deeper in the regional markets, we have launched 3 regional channels that will make our content more accessible to audience across the country. India's first Punjabi GEC will surely help further strengthen our viewership share and brand in the north Indian markets. With the addition of two new regional movie channels, we now have the biggest movie channel portfolio in the country. We are preparing for the launch of two more channels over the next few months. We also continue to invest in original content for ZEE5, to create a rich content library that will make it a really compelling offering for our consumers. These investments will help us grow ahead of the industry once this transient slowdown phase has passed.

During 3QFY20, our television network had an all-India viewership share of 18.2%. While our regional portfolio increased viewership share, share in the Hindi market declined, in both GEC and movie segments.

Zee TV maintained its weekday prime time leadership, but lost weekend prime time share and was the #3 channel in the pay Hindi GEC segment. Our Hindi movie cluster continued to be the #1 movie portfolio in the pay Hindi movie genre.

Our regional portfolio had mixed performance during the quarter. We maintained leadership position in the Marathi, Bangla and Kannada markets, with Zee Kannada



further strengthening its leadership position. While Zee Tamil improved its viewership share, Zee Telugu witnessed a marginal decline. Zee Keralam, continued to gain share in the Malayalam market establishing itself as a strong contender for the number two position. Zee Sarthak regained leadership in the Odiya market towards the end of the quarter.

Now coming to ZEE5. In the month of December, it recorded a peak DAU of 11.4mn. ZEE5 released 26 original show and movies during the quarter and continues to be the biggest producer of digital original content in India. We are well on track to achieve the target of producing over 70 original content pieces this fiscal. ZEE5 launched a refreshed version of Progressive Web App in December which enables a fast, engaging and immersive user experience. We are also in the process of inking deals with smart TVs for placement of hotkey on their remotes which will make ZEE5 content accessible to the users at the click of a button.

Coming to the financial performance, our overall revenues declined by 5.5% YoY to Rs. 20.5bn. EBITDA for the quarter stood at Rs. 5.6bn and EBITDA margins were at 27.6%.

Our cash and treasury investments at the end of December quarter stood at Rs 17.7 billion.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: Punit you mentioned that the receivables from Siti and Dish, you now have a plan to collect the money over 12 to 24 months. Given that the two entities have had challenges over the last 9 to 12 months in paying you money, what gives you the confidence that their financial position will improve, and you will get the money back from them? Second question is on the promoter group level debt, now what the update on the liquidation of non-media assets, and any update on the stake sale of Dish and anything you can clarify on that?

Punit Goenka: On the first part, what we initiated was that when we saw that they, Siti and Dish both, have fulfilled their commitments to us as per the payment plan given by them



for Q3 but they expect potentially not being able to keep it up in Q4, especially Dish, Siti I'm still confident will be able to stick to their payment plan as they had submitted to us, we appointed a third-party to go and do a deep dive into their financials. The third party has come back and said that given the current debt levels of Dish, at where they stand in the way they have planned their cash flows, this is the best outcome that they can do and therefore we believe that this is all collectible. For the time value of money, we have already taken a provision in our books and obviously we will try and recover it back from Dish TV as and when the time arrives. So, it has been certified by a third-party to us and board has taken note of the same and therefore has allowed us to go ahead on this basis.

On the second question Vivek, I am sorry as I had stated earlier as well, I'm no longer involved in the Essel Group corporate affairs. I'm solely running the Zee Entertainment Company. But I will request to corporate team to give an update to Bijal who can then share with you offline.

Vivekanand Subbaraman: And one small book keeping question that I forgot to ask, what is the cash position right now in the company?

Rohit Gupta: Our cash and cash equivalent as of 31st December is at 17,678 million and it has improved from 14,792 million as on 30th September.

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

Yogesh Kirve: If you have seen the programming cost has increased by 15% in the first nine months, now considering we have launched three channels and I think two more channels are slated, so any guidance on how should we look at the programming cost over the next four quarters?

Punit Goenka: Programming costs on the back of the new channels and ZEE5 combined will be in the region of 10% to 12% for us and going forward it will be pretty much in line with that.

Yogesh Kirve: 10% to 12% is the growth you are referring to, right?

Punit Goenka: Yes. Bijal you want to add?

Bijal Shah: One thing you need to understand, there are a lot of things which go into programming cost. So, if we have any big movie in the base quarter and we don't



have movie in this quarter then the programming cost will change dramatically in terms of growth. So underlying programming cost is growing, and it is not a 6% growth. Last year same quarter we had some movies and that is the reason why the comparison might be based on that. Additionally, there is one more thing, last year in 3Q advertising market was extremely strong, so we had taken up lot of shows and done events around that, I mean outside the normal shows, and that is the reason the cost of programming was high. Now if we look at this year, the advertising market was not strong and tactically we have actually reduced those investments. So that also explains a part of slower growth in overall programming cost. That said, if we look at the base business, both domestic broadcast as well as ZEE5, I don't think that there has been any change or anything, which is I mean in terms of programming cost growth trajectory, there is any change. It remains pretty stable.

Yogesh Kirve: So, if we even out for all this sort of quarterly volatility, my question was little from a longer-term perspective, over next 1 or 2 years, so on back of the channel launches are we going to see sort of a higher increase than we are seeing currently?

Bijal Shah: Not really. The channels, which are two are movie channels, and one more movie channel we would be launching in due course of time and then there is Punjabi general entertainment channel. Now of these three movie channels, a good part of amort was already in our P&L. We did not have enough movies at that point of time, we were building library, and that is the reason why there was no movie channel. So those movie channels will not lead to a very significant increase in cost. Punjabi will add to cost, but in overall scheme of things it's very small. And on the ZEE5 side also we are already reaching, in terms of number of shows, we have reached where we wanted to reach, around 70+ shows in a year's time. So there also we don't see much of an increase. So overall, I don't see any step jump or a discontinued increase in the programming cost.

Yogesh Kirve: And just another small question, so related to the provision we have taken related to the delays in collections, so is it for the amounts which are overdue so far or we have also taken into account a delay for about 12-24 months that we are anticipating?

Punit Goenka: No, so it takes into account the payment plan as agreed by the board and how the collection will come in, so it's for the entire amount.

Bijal Shah: Just to clarify this is not that Dish TV will not pay the entire amount, it is a provision for loss of time value of money due to delayed payment. We will recover entire



money from Dish TV. However, since the payment is delayed, the charge has been taken to recognize the time value of loss.

Rohit Gupta: I may just like to add, when we collect all the payment, this charge will actually be reversed in the profit and loss account.

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

Kunal Vora: On advertisement you mentioned that next quarter you expect to get back to growth. So just wanted to get some more insights like what's your view on the market right now, which are the sectors spending, not spending and what's giving you confidence, are we seeing signs of improvement in January? I will come to the second question later.

Bijal Shah: What we have said is that this is the worst quarter. There will be definitely an improvement from fourth quarter itself. Just want to put this quarter decline in perspective and that will give you an answer that why we are saying this is the worst quarter. There are three things which are actually driving this sharp decline - one is that we took off two of the most important channels from DD FreeDish, so that itself is contributing almost like 450 basis points of decline and that gets into the base from 1Q of FY21. So that degrowth which we are facing on account of FTA strategy will not be there. Secondly if you look at last quarter's numbers, the base was extremely high. We grew around 23% in the last quarter on the back of 30% growth in a year before. So that was the reason, as I mentioned that we were sensing very strong market in the last year same quarter, we had done lot of events and we were tactically investing in lot of properties. So that also resulted in significantly better revenue growth last quarter. So, the base was extremely high and that has impacted to an extent. Last reason is that overall we are seeing weak economic environment. So that's where most of our consumer companies have seen a sharp slowdown. Now in this slowdown, generally the consumer companies tend to hold back on new product launches or new innovations, which typically accounts for up to 50% of their spends. Cut back in the innovations has actually led to a significant drop in industry revenue itself and which is reflected in our numbers also. So, going forward we think that the base itself will be much better and secondly the worst is behind us. We are seeing some stabilization in ad revenues in last couple of months and we think that we are quite hopeful of recovery to normal growth trajectory in the coming fiscal.



Kunal Vora: Second question on international - advertisement as well as subscription revenue has been coming off sharply. Is it largely because of rising usage of OTT and is the decline broad-based or any specific market in which you are seeing pressure? And what's the status of ZEE5 roll-out in international markets?

Punit Goenka: So, it is quite broad-based, if you see we have seen losses in the Middle East market, we have seen losses in the UK market. So, the Middle East market is largely due to the economic environment there but there was also a platform that shut down in the Middle East market which completely wiped out the subscription revenue. So, it is quite broad-based, it is not one specific market per se. But yes, answering your question, markets like UK etc. are at some level impacted due to the OTT business and we have taken a conscious call that during the next fiscal we will be shutting of our linear business in these markets and only be available through ZEE5. ZEE5 has seen good traction in certain markets, definitely in Asian market and Europe markets, but we believe that once the linear feeds are out of the picture then we will see even furthermore traction for ZEE5 in these markets going forward.

Kunal Vora: So how would that impact the international revenues next year as you shut down the linear television?

Punit Goenka: It will be hockey stick thing wherein you will see some more decline happening next fiscal in the subscription revenues and then starting from the fiscal after that you will start to see growth come back.

Kunal Vora: Lastly on margins - with larger investments, new channel launches, and if you start expensing inventory how should we look at the margins going forward? The 30% margin base still remains?

Punit Goenka: We are still in the process of finalizing our plan for the next three years. I will be in a better position to guide you on margins at the end of the fourth quarter. But right now, for the fiscal, we are making all endeavors to reach the 30% mark. If you see our nine months total, we are still at 31%, and therefore there is no reason to doubt that why we can't achieve 30% this fiscal.

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



Rohit Dokania: Punit can you talk about subscription revenue - how should one think of domestic subscription revenue in the next fiscal? So, I obviously understand that where the amendments to the new tariff order. So, if one was to sort of set the amendments aside what kind of growth could one see in a status quo scenario?

Punit Goenka: In a status quo scenario you would definitely see low double-digit growth coming from us and even in the new scenario we are very confident that we will definitely have growth. What that level of growth will be is difficult to say today. But definitely once we see the outcome of the tariff order or NTO 2.0, we will be able to guide you better. But in both scenarios, I still believe that the company will still grow its domestic subscription revenue.

Rohit Dokania: Also, just one book keeping question, is it possible to share the absolute figure of inventory and receivables as of Q3 end?

Punit Goenka: Yes of course.

Bijal Shah: So you go ahead with the next question.

Rohit Dokania: This is the last question Bijal.

Punit Goenka: Just give us a second.

Rohit Gupta: Our inventory and advances, and I am looking at both these numbers together, we are at roughly around 6000 million and this is against about 5.8 billion last quarter.

Rohit Dokania: You mean 6,000 crores versus 5,800 crores last quarter?

Rohit Gupta: Yes.

Rohit Dokania: And similarly for the receivables?

Rohit Gupta: So receivables are in line. They have actually come down marginally, so as against 2,418 crores we are at receivable number of 2,332 crores.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: In H1 our content cost was roughly 20% of growth year-on-year while this quarter the base being higher partially, the cost has come down to 6%. Now going ahead what sort of run rate should one expect there, given that our investment in ZEE5 also will



increase, as well as the new channels, the overall spend will remain there. So will it be in tandem with the revenue growth or if you can put some light over there?

Punit Goenka: As I said earlier the current year is the peak investments of ZEE5 and that's why you saw over the last 9 months, 15-20% kind of growth. It will now normalize and I think we should be in the ballpark of 12% to 13% odd growth in the coming fiscal.

Ankur Periwal: And secondly on the balance sheet front - now given there was certain elevated inventory because of the new channel launch expected, which now is panning out over the last few months and going ahead as well, the balance sheet, as in the working capital investment there, should be seeing a reduction probably in March? Will that be the right understanding because you mentioned earlier that FY20 will still be a peak inventory? But in absolute terms versus H1 there should be a decline there?

Punit Goenka: We actually see that more starkly in FY21 because this is still the pre-operative launch phase of the channel and the hard launch is yet to happen.

Ankur Periwal: Just one clarification although it got covered in the earlier question as well. On the subscription front, now with this NTO being there an overhang still, we are fairly confident that the subscription revenue will still be in a positive trajectory despite NTO being implemented, even if it is good let's say in the current form.

Punit Goenka: Absolutely correct.

Moderator: The next question is from the line of Ali Asgar Shakir from Motilal Oswal Securities. Please go ahead.

Ali Asgar Shakir: I just wanted to understand, maybe if I missed it, pardon me for repeating, just the ad outlook that we are seeing and what kind of growth scenario we can build probably in the coming quarters?

Punit Goenka: So FY1 we are expecting to be in the high single-digit kind of a scenario.

Ali Asgar Shakir: In advertising?

Punit Goenka: That's right.



ZEEL Q3FY20 Earnings Conference Call - January 22, 2020

Bijal Shah: So, the expectation of agencies is high single-digit for entire television industry but if you look at last year, we had two big sporting events, one was World Cup plus there was IPL, next there will be only one, so for entertainment it could be low double-digit.

Ali Asgar Shakir: And also we have been barring the last few quarters generally getting market share, so always targeted growth above the industry. So what is the growth that we could target at?

Punit Goenka: Our endeavor will always be to beat industry, so that we will stick to that.

Bijal Shah: And this launch of new channels will also help us in the coming year. On top of that, Kerala which we launched in the last fiscal, that has been consistently gaining market share, so that will also start adding to overall growth. So again, on the growth side, it is market share led growth-driven story, if we are able to improve, we should be able to grow ahead of market. But we have lot of levers to improve our market share in the coming year.

Moderator: The next question is from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: Could you discuss with us what's the situation in terms of the funds on balance sheet which is tying up cash at the Poseidon and various other funds? Have you been receiving the money like you said you were or is it still left?

Punit Goenka: We have already started the process of redemption Charles and last quarter we've received \$2 million from them. We are expecting some more money in this quarter and we are expediting the redemption to happen as soon as possible.

Charles Cartledge: So when do you think it might be complete?

Punit Goenka: It will take about 12 months for us to get it done.

Charles Cartledge: And why would it take that long?

Punit Goenka: Basically, these investments were done in non-liquid, high yielding assets and therefore liquidating them takes time, and we are working with the funds to make sure that these liquidations happen as soon as possible, even if it means we have to suffer some losses. But we are still working towards the redemption as soon as possible.



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

Jay Doshi: I just have this question to the CFO, you mentioned 6,000 crores inventory plus deposit advances because if I am not mistaken inventory as at September end was 4,300 crores and depository advances were about 840 crores. So that would be about 5,200 crores, so has it gone up from 5,200 crores to 6,000 crores, am I missing something which doesn't look like?

Bijal Shah: No, you are not missing. We have given the entire advances number. Now if you are asking about those advances only which are for film acquisition, it has gone down a bit, those advances have gone down a bit by around Rs. 50 crores and inventory has gone up by around 200 crores, so overall around Rs. 150 crores of increase in that part. Now the overall number which we talked about includes all the advances which is shared towards advance taxes, towards deposit which we would have given for renting property and various such advances would be there. There might be some advances which are for buying content and all. So, all the advances which are there that was that number 6,000 crores. Otherwise the number has gone up by 150 crores, advances relating to film acquisition and the inventory both are there.

Rohit Gupta: I'd just like to clarify here, so this number that we spoke about is inventory and advances. We do have what we had called as interest free security deposit which are over and above that, that is about 775 crores over and above that and that number in September was 769 crores.

Jay Doshi: Second question is a related question on programming cost. Now you have guided for 10%-12% increase next year, now if I look at your inventory increase on a YoY basis over the past 12 months it's gone up by 1,600 crores. So, on a straight-line basis of five years period roughly it should result in the inventory amortization increase of more than 300 crores per year, which itself translates into high single-digit increase in content cost, and top of it you are indicating higher investments in ZEE5. So, I am little surprised that 12%-13% programming cost increase guidance that you have given for next year or going forward looks a little bit on a lower side to me. So what am I missing, and second is when I look at this quarter's number, if I were to factor in the inventory amortization in sync with inventory increase, the 6% growth in programming cost looks a bit too low. So if you kind of call out what percentage 4500 crores inventory as at September end is not subject to amortization as yet because that content is not telecasted?



Bijal Shah: First, see if you are seeing an inventory increase through the year only you will not see full impact of that increase, some impact of that increase is already flowing through our P&L this year. So, you will not see that full impact, which you are calculating as 20% in the coming year, is not correct. That's number one. Number two, if you look at our balance sheet, even within that there is around Rs. 5 billion plus of inventory which is kind of coming up for amortization only at a later date because these are all future rights which are there, so that is the second part. Thirdly we have said that we are reaching peak investment intensity in ZEE5 in this year itself. So, it is not that we are saying that ZEE5 investment intensity will go up in the coming year. Looking at the domestic broadcast business, given the way at environment is and we are actually at optimal number of hours across all the channels, so we really don't need to add significantly to our spends in the coming year. That is one, and on top of that there are few other strategic things which we are doing in domestic broadcast business which will also result in also some reduction in cost and we are having some cost optimization also. So, putting all this together, a large part of this 13% growth which we are talking about will be driven by movie amortization but beyond movie amortization the increase in cost will not be very significant.

Jay Doshi: So current inventory, Rs. 5 billion is what is for future rights and the remaining 40 billion is what is pertaining to content that is being telecasted, so you are already amortizing it, is it the right understanding?

Bijal Shah: Yes, absolutely and also note that whether the movies telecasted or not, if rights become active, we start amortizing. So, let's say that we would be launching a channel, we have launched a channel in Bhojpuri this year but if there were movies which were in Bhojpuri which we had acquired and the right gets started on the 1st April 2019, the amortization starts. So, amortization does not wait for telecast. So that again will probably answer your question to a large extent.

Jay Doshi: And a final point just a request—I had put this request last time around as well—if you could give some the standard disclosures on ZEE5 which is MAU/DAU because when we look at your competitors' numbers on App Annie or SimilarWeb and when we compare those numbers with ZEE5, it becomes very difficult to reconcile with the disclosures that you have given on ZEE5. So, for us to be able to assess the progress as well as positioning versus competition, it becomes difficult. So if you could share standard MAU/DAU numbers instead of peak DAU.



Punit Goenka: Absolutely Jay, we will start doing that from next quarter. As I stated in my opening remarks that the progressive web application is just launched last month and our new app will be launching in the month of February. So, starting from next quarter we will start giving you the absolute standard metrics.

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

Alankar Garude: There has been a dip in our market share in Hindi GEC since the past 3-4 quarters. Even in a key genre like Marathi, the market share of some of our competitors has been picking up meaningfully. So my question is, are there any content initiatives planned to improve our market share in Hindi as well as some of these important regional languages?

Punit Goenka: Yes, so obviously we continuously want to look at our content portfolio of the channels and improve on that so that the market shares can be gained back. You will see a lot of content change happening on Zee TV, on Zee Marathi, on Zee Telugu. So all these channels where we lost market share, we will be replacing most of the shows, therefore trying to the gain back the leadership position. In fact, I am told that Zee Telugu has already gained back or started the trajectory towards upward movement and should be on track within first quarter of next fiscal.

Alankar Garude: Secondly Punit, can you share what would be the size of the board once the new members have brought in?

Punit Goenka: The board size eventually will be only 8 to 9 members, and this should be all done by the, as I stated in my opening remarks as well, from the beginning of the fiscal.

Alankar Garude: Finally, Punit one question for you - do you think that this board reconstitution episode which happened in November could have been handled better?

Punit Goenka: In the hindsight everything could have been handled better, including what happened on January 25th last year.

Moderator: Next question is from the line of Priyank Singhal from HDFC Life Insurance. Please go ahead.

Priyank Singhal: My first question is on subscription revenues, what percentage of our subscription revenues would be coming from Dish and Siti Cable?



Punit Goenka: So, Dish is roughly about 20% of our revenue, Siti Cable will be just about 7%.

Priyank Singhal: So about 27% of total subscription revenues come from these two entities?

Punit Goenka: Correct.

Priyank Singhal: For the quarter we have reported 22% growth in subscription revenue, so what is driving this very significant growth? Because I think mandatory CAS etc. all that is behind us, right, so is it completely largely volume driven or there is an element of pricing if you can break it between pricing and volume?

Punit Goenka: No, this is purely NTO 1.0 driven, there is nothing else in that. The volume part is yet to be factored in because we have not even started work on that yet.

Bijal Shah: So Priyank, ZEEL's subscription growth has been highest post NTO 1.0. The reason for that is if we look at last 7-8 years, ZEEL's market share has gone up from around 11% to almost 20% when NTO was launched. Now most of our competition has not seen any gain in market share, in fact some of them have actually seen a loss in market share over a period of time. Now in earlier regime it was bit difficult to monetize this gain in viewership, because generally a bilateral deal used to happen and that was like last year's price plus something. The new NTO actually gave us a chance to reset our pricing. So I would say that a very-very large part of our subscription revenue growth has actually come from the places where we have built viewership over last 3 to 4 years. Just to give you an example, Tamil Nadu was not a market where we were getting anything. It was almost like close to zero rupees of subscription revenue if I were to see FY18, FY19 financials. But if we to look at FY20, that number has become very-very significant. Similarly in Telugu market and Kannada market, we have seen some significant improvement in West Bengal. We are also seeing significant improvement in Maharashtra market on account of the fact that Zee Marathi is kind of an indispensable channel for almost everyone and which was not getting due value in the earlier regime. So this entire growth in our viewership is an explanation to why we are growing much faster as compared to our competition.

Punit Goenka: Plus, I should add here that in Tamil Nadu, two months ago most of the cable companies have switched off Zee Tamil and we went on an aggressive marketing drive in Tamil Nadu, and almost 60% of subscribers have gone and picked our channels à-la-carte.



Priyank Singhal: So it is in that case if I understand it correctly volume driven, right because we are able to get for higher number of subscribers we are now getting paid for compared to in the past, is it?

Punit Goenka: We knew those subscriber base existed, but because we were unable to price the channels for the consumers they were being sold as a bundle. Therefore, there was no individual pricing. Therefore, it is still pricing driven from, not volume driven.

Bijal Shah: And just linking this to the other question which was asked in the forum that what will happen in the NTO 2.0. So, the kind of viewership and the kind of pull our channels have exhibited during implementation of 1.0 gives lot of confidence that we should be able to continue to grow our subscription revenue even in the new regime.

Priyank Singhal: But given that Dish TV and Siti Cable are 27%-30% of our subscription revenue, I am assuming it is fair to assume that of the incremental revenue growth, revenue growth that we are seeing on the domestic subscription side, those two entities would have a similar share in the incremental subscription revenue as well. So what I am trying to understand is that the receivable outstanding therefore keeps going up from those two entities and if they have not been in a position to clear our historical outstanding, incrementally all this additional burden coming on to them? What are your thoughts on that and what would be the current at the end of the quarter receivable outstanding from those two entities? Is 750 crores the total amount including whatever has grown during the quarter as well? How should we look at the overall receivables picture given this healthy growth on subscription revenues that is coming in?

Punit Goenka: I think let's break the two up, let's not combine and look at it. If you look at Siti Cable, they have been paying us from the last quarter, all their monthly billings plus additional amounts. Therefore, their actual outstanding has come down. I expect the same to happen in Q4 as well. In the case of Dish TV, they have been making regular payments to us for the current billing for the last quarter and they will continue to do that for this quarter as well. Their outstanding amounts or overdue amounts will start getting reduced starting from next fiscal onwards. And on your point about incremental numbers being added, if you look at cable in NTO 1.0, the cable industry lost almost 15 million subscribers. So it's not as if cable industry is growing significantly from that perspective. Even on Dish TV side, our numbers have been stable, there's been hardly any growth in the billing.



Priyank Singhal: So the 22% growth in domestic we have seen, you are saying that Dish and Siti may not have grown, so it is the ex of these two the remaining 70% which has grown even at a higher rate so that overall has grown by 22%?

Bijal Shah: Just let me clarify. One is that because of NTO 1.0 we have seen growth across the board. Now I think you are conjecturing that a large part of this 22% growth is coming from Dish TV and Siti Cable, that is not the case. In fact the growth at those places are actually lower than the average growth which we have seen. We have seen a very strong growth in southern market, in that markets Dish and Siti are not really that strong. So actually if we were to look at distributor by distributor, the growth from other distributors is much stronger as compared to this. As far as Dish, Siti subscription revenue receivables are concerned, so going forward they will be paying for what we bill for the year as well as they will be paying a part of arrears. That arrears for Siti Cable will be completely cleared in 12 months' time and the arrears for Dish TV will be cleared over 24 months' time. That is the plan right now.

Priyank Singhal: But what would be the total number outstanding Bijal as on the quarter between these two?

Bijal Shah: Rs. 7.5 billion is the total number which is given in the notes to accounts also.

Priyank Singhal: So 750 crore is the total, not just the overdue amount, so it is a total amount?

Bijal Shah: Yes that is the total amount.

Punit Goenka: Overdue amount is?

Bijal Shah: Overdue amount is around Rs. 3.5 billion and total number is 7.5 billion. We don't expect it to increase in fourth quarter also and then the arrears payment will also start.

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

Naval Seth: 2-3 of questions. First on Dish and Siti - are these equal installments, monthly/quarterly, or these are like will be staggered at the end of the period?

Punit Goenka: The payment plan has been received monthly basis and that's how the collections will happen.



- Dhaval Seth:** So these are equal monthly installments?
- Punit Goenka:** No, they may not be equal monthly installments, they are monthly installments and going up significantly later on.
- Dhaval Seth:** Secondly on the content advances what we had paid during the last year for interest-free 11 months, what is the status there? Have we received content rights or is there anything which money we will get back because we have not received content rights, any status update over there?
- Rohit Gupta:** We have been receiving content over the quarters and some of these advances will completely be nullified by end of Q4, and in terms of the deposit, some part of which has come in Q2 and Q3, and some part will come in Q4. They will be converted into advances in the Q4 and then we will see that they will be converted into inventory over the next year.
- Dhaval Seth:** You are sensing anything which will not get converted into content and you will receive back the money, anything of that sort you are sensing over there?
- Punit Goenka:** So if there is no content received in the next fiscal against these advances or deposits, this money will be returned back.
- Dhaval Seth:** And lastly what was the OCF and FCF generation for the quarter?
- Rohit Gupta:** We had a positive cash flow this quarter and as you can see that our cash and cash equivalents have grown. The OCF for this quarter is 251 crores.
- Dhaval Seth:** And FCF?
- Rohit Gupta:** Approximately the same number is FCF, because not much CAPEX during the quarter, so about 250 crores is the free cash flow.
- Moderator:** Thank you very much ladies and gentlemen, we will take a last question now which is from the line of Depak Gupta from Reliance Nippon Life Insurance. Please go ahead.
- Deepak Gupta:** I just want a clarification on the ICD of 150 crores which was written-off last quarter, is there any update on the same?
- Punit Goenka:** Not yet Deepak, we are still working on it. I think the company has had many other priorities to be dealt with. We will come to that soon.



ZEEL Q3FY20 Earnings Conference Call - January 22, 2020

Moderator: Thank you very much sir. Ladies and gentlemen that was the last question for today. On behalf of Zee Entertainment Enterprises Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.