



“Shemaroo Entertainment Limited Q4 FY15 Results Conference Call”

May 8, 2015



**MANAGEMENT: MR. HIREN GADA – WHOLE TIME DIRECTOR & CFO
MR. JAI MAROO – DIRECTOR & HEAD, NEW MEDIA**
**MODERATOR: MR. KARAN TAURANI – RELIGARE CAPITAL
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Shemaroo Entertainment Q4 FY15 Earnings Conference Call hosted by Religare Capital Markets Limited. 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 this 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. Karan Taurani from Religare Capital Markets. Thank you, and over to you Mr. Taurani.

Karan Taurani: Thank you, Malika. Good Afternoon, Everyone. We at Religare are pleased to host the Q4 FY15 Result Conference Call of Shemaroo Entertainment Limited. The management is represented by Mr. Hiren Gada – Whole Time Director and CFO, and Mr. Jai Maroo – Director, New Media Head. We will begin the call with a short commentary from the management, post which we will enter the Q&A. Thank you and over to you Mr. Gada.

Hiren Gada: Thank you, Karan. Good Afternoon and Welcome everyone to the Shemaroo Q4 Earnings Analyst Call. And thank you very much for spending the time to listen and dial into the call. Very pleased to announce and share the results that we clocked for the financial year FY15 as well as for the Q4 of financial year FY15, so first I will quickly take you through the highlights of the Q4 number: The total top line for the Q4 has increased by 65% to Rs.87 crores; EBITDA has grown by 56% to Rs.26 crores; and PAT has grown by 81% from Rs.7 crores to Rs.12.77 crores, and for the full financial year FY15, the top line has grown by 22.4% to Rs.324 crores, from Rs.265 crores; EBITDA has grown by 34.7% to Rs.84 crores from Rs.62 crores and PAT has grown by 50% from Rs.27 crores to Rs.40.92 crores, this is on a consolidated basis. The EBITDA margin for the full year has grown from 23.6% in FY14 to 26% in FY15.

Further to highlight performance in terms of couple of operational aspects; the breakup of the top line in terms of the New Media and the Traditional Media which we have been sharing for last few quarters is showing up year-on-year growth for Q4 FY15 to 74% for New Media and 65% for Traditional Media; for the full year, the growth is 52% for New Media and 20% for Traditional Media; so, for the full year the new media has clocked Rs.37.3 crores for FY15 versus top line of Rs.24.6 crores for FY14.

Further, a couple of operational highlights: the Mobile Database revenue continues to improve, so various Database Services via mobile operators, our content participates in, that revenue has continued to see a very strong and healthy growth. Very pleased to announce that had YouTube Filmi Gaane channel has crossed more than half a million subscribers during this quarter, which we think is a very interesting landmark and third is our YouTube monthly views which have now crossed 74 million viewers for the month of March '15, which is an average upwards of 2.4 million or 24 lakh views on a daily basis is what our content is currently clocking. So these are some of the highlights of Q4FY14 results.



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We are pleased to take questions if any that you all may have. Thank you.

Moderator: Thank you. We will now begin the question-and answer-session. The first question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.

Sunny Agarwal: Sir, my first question pertains to our content sourcing strategy for next 2-3 years. Right now, if my understanding is right, we right now are holding around 3,000 in terms of numbers the content. So can you share how that number will pan out over the next 2-3 years and how that split will be among the regional or probably movies or any special dedicated content?

Hiren Gada: A couple of things; in terms of the question one is, what is the overall content strategy, I think two things that we are clearly working towards – one is that going from the aspect of where the consumer traction is and how we can really participate in the Content, which is generating high consumer traction. So, the strategy overall while the numbers will grow at a certain level, the focus is actually in two ways – one is to grow qualitatively in terms of in the Content which is much more valuable and participating in terms of the consumer traction as well as in terms of platforms and rights to make it wider. So it is more qualitative than quantitative I would say in terms of the third process going forward.

Sunny Agarwal: If my understanding is right, approximately, we are going to spend Rs.200 crores every year for next 2-years for Content Acquisition and right now with a library of 3,000 titles, any color which you can give, just I am trying to get a sense that how that 3,000 number will move probably over next 2-years, I understand that your focus is more on qualitative content rather than quantitative?

Hiren Gada: There are two parts to the library – there is a perpetual library and then the aggregate rights ownership. Aggregate rights ownership assuming an average of five-year cycle, there is a natural renewal that will be involved, so part of the acquisition will involve natural renewal of existing content or shifting towards different kind of title within that space. So that is one part. Overall, in net additions, I would imagine should be probably in the 5 to 10% kind of range on an annual basis.

Sunny Agarwal: How is the growth trajectory looking as far as the new media business is concerned?

Jai Maroo: Overall, I think all the tailwinds which we spoke of even in prior quarters and leading up to this in terms of what is impacting the growth overall, all of those are continuing to play out. If you just talk about two key numbers, for example, that if you look at the industry reports, so Digital Advertising which we have been citing industry reports, let us say it will grow anywhere from 32% to 45% CAGR in the last year did in fact grow 44.5% and the 3G base in India which is the other key thing, which is in terms of the device penetration and the internet users overall, our 3G base in India grew by approximately 98% and touched 67 million. So these two key drivers of the growth overall which we have also been talking about are playing



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out at or better than forecast. On the back of that, the kind of consumption which we have been working on and the services that we participate in power are also continuing to grow. Overall, the industry level growth I would say for Content in the New Media segment is about 35% CAGR, and we are definitely seeing very confident, our traction is we will do better than that or our endeavor is to do better than industry.

Moderator: Thank you. The next question is from the line of Ashutosh Garud from Reliance Portfolio Management. Please go ahead.

Ashutosh Garud: I just wanted to know the break-up which you mention between the New Media and the Old Media, I missed that?

Hiren Gada: New Media for FY15 is 37 crores, Traditional Media is 286 crores and FY14 was Rs.24.6 crores and Traditional Media was Rs.238 crores. Q4 New Media is Rs.11.45 crores versus Rs.6.57 crores and Traditional Media is Rs.75.27 crores versus Rs.45.7 crores Q4 FY15 Vs Q4 FY14.

Ashutosh Garud: What kind of traction do you see continuing in this Old Media segment?

Hiren Gada: Traditional Media if you see the latest wiki frames report from KPMG, which normally has been guiding about the overall industry growth, the Traditional Media overall is expected to be growing in the 12% to 16% rate for over the next about four-to-five years at an industry level and our endeavor will be to do better than that. The focus as a company has obviously very strongly been on the Digital Media side in terms of ramping up the Content Teams present across various platforms, and more importantly the mindset and the thought process how we are driving the business.

Ashutosh Garud: What are the similar estimates for the New Media?

Hiren Gada: New Media estimate roughly about 35%, and we are very-very confident that we will do far better than that.

Moderator: Thank you. The next question is from the line of Karan Taurani from Religare Capital Markets. Please go ahead.

Karan Taurani: The question is actually in terms of the debtor days; it has come down sharply from about Rs.195 to right now Rs.143 odd. Surprise positively because we have clearly seen debtors days will come down gradually. So is this sustainable firstly and what happened exactly, why there is a sharp dip?

Hiren Gada: Two to three things; if I rewind back for us and this discussion we have had with various analysts and investors over the last almost six months is that there is a certain trade practice and industry practice because of which the Traditional Media debtors' days are typically high.



Now, for us it was obviously in the normal course of business but when we did the IPO process, we figure that the investor community took very serious note of that. So, one of the things we did over the last six months is consciously look at how we can do better deals with shorter time payment schedules, etc. So, that has been one of the things that consciously our teams have been working on and we have achieved some success in that. Second question is in terms of the sustainability; I would still say that in the range of about 6-months average which is about 170 to 180-days average, if you ask me right now a normal course but obviously based on a lot of these efforts and over a period of time it will keep coming down is what our conscious effort is going to be. Secondly, as we discussed, with the Digital Media growth coming in faster and Digital Media is a shorter collection cycle, so that definitely going to be a positive impact on the overall receivable days.

Karan Taurani:

Why were the margins down for this quarter versus last year?

Hiren Gada:

It is a marginal dip actually, but it is on a much higher base or scale if you see the overall; on the traditional media I would say high turnover, lower margin kind of deal we would have had.

Moderator:

Thank you. The next question is from the line of Farhana Lambe from NVS Brokerage. Please go ahead.

Farhana Lambe:

My first question is about the finance cost. The finance costs were Rs.3.41 crores in the last quarter, but in this quarter they have again increased to Rs.5.25 crores. Could you please give me some idea on this?

Hiren Gada:

One of the things we have even highlighted it during the last call also is that what we are in the process of basically bringing down the overall cost of capital. So there are three-to-four different aspects to that – one is for a rating upgrade which we have got from CRISIL and Care both have reaffirmed “A-“credit rating. On the back of that we have been in the process of renegotiating our interest rate as well as the changing over to certain bags. So there are some fee components. So the interest cost within this is actually lower, there is a certain combination of fee and interest which both gets classified in the finance cost kind of classification. So as per the accounting standards it is there, but that is a part of the transition that certain one-time costs have been incurred and there may still be but we are happy to have achieved a good amount of breakthrough in that. So the full impact of the lower cost will be visible over this next financial year.

Farhana Lambe:

So what you wanted to say is that these one-time costs will be only for this quarter, so next quarter there would not be reflecting?

Hiren Gada:

What happen is that when you change over, etc., there are certain one-time fees or cost that are incurred on both sides, and that process still continues in this quarter, I think that process would get over by the end of this quarter.



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Farhana Lambe: My second question is about the guidance. Could you please give us some guidance for FY16?

Hiren Gada: Unfortunately, we have not been giving guidance, but as we discussed earlier there are two components to the business – the Traditional Media and New Media. New Media... industry growth is expected to be around 35% and we are confident of doing far better than that, our effort will be to at least maintain a similar growth for the entire year what we have already done for this financial year; Second is on the Traditional Media, the industry average is expected to be between 12 to 16%, and we hope to do better than that in terms of the top line. On the margin front, at EBITDA level, Traditional business, I think will continue to remain similar margin but if the operating leverage of the New Media business that should take the margins higher.

Moderator: Thank you. The next question is from the line of Ishdeep Kaur from Karma Capital Advisors.

Ishdeep Kaur: Just to understand the growth that is coming from the Traditional business which is 20%. So, could you break down as to how much of it is because of the broadcast syndication and what would be the other revenues of growth in this?

Hiren Gada: While we are not giving that breakup as of now, but I can give you a slight color of the overall... television is obviously a large component of this where supply of film content to all the major television platforms, whether it is movie channels, news channels, music channels, international channels, cable channels, terrestrial channels, Doordarshan, international terrestrial channels, all of this which has a large part in the Traditional business and then of course there is a physical home video and any other media like airborne, where the film gets consumed, so various other elements of wherever film gets consumed.

Ishdeep Kaur: This question was coming off is because last 2-3 years the broadcasters have been a little aggressive in building up their film library, but it seems that since last one year or maybe 6-months it started cooling off a little. So just wanted to understand what would be the delta in terms of your cost for acquiring new films and probably increment that you are seeing from the broadcast syndication?

Hiren Gada: Basically, what you are saying is relevant from a New Film point of view, we do not have too much of play on the New Film part. As far as Library or Reissue Catalogues are concerned, I think that is considering five-year licensing cycle, there is certain staple diet that every film channel needs to maintain and have on a continuous basis in order to run its show, as well as there are a lot of these derivative channels like some music channels, or even news channels and film-based programming and things like that. So there is a whole lot of wide usage of film content across different media.

Ishdeep Kaur: Do you see this delta decreasing in terms of your acquisition cost growing at similar rate but the broadcasters see probably payment are you decreasing?



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Hiren Gada: At this point, no, because what is rather happening is that the two phases of Digitalization is fairly in place, Subscription revenues stream is getting added, and on the other hand placement or distribution costs have been coming down. So there was a certain inflation in the New Film acquisition prices that the first cycle or the premier telecast acquisition prices that the industry had experienced and that currently has gone through a certain correction, but as far as catalogue is concerned I think it is fairly stapled diet and we had not seen that kind of inflation in prices overall.

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

Yogesh Kirve: Sir, I wanted to understand, our inventory days have risen consistently from about 120-days in FY11 to around 320-days in FY15. Now, we understand that you are in the library building stage. But at some point of time, we would start expecting that inventory route should be more in line with the revenue growth. So where we are with regard to that particular stage?

Hiren Gada: It is a right assessment that it is the library building stage. So it is very difficult to say where this would stabilize but my own assessment would be that we would maybe four to five quarters away from this stabilizing that build up as in stage where the sales growth or the revenue versus replenishment kind of surpasses that.

Yogesh Kirve: In this year we had one production – Hunter. So, just a comment on how it has been in terms of the profitability? And secondly, going forward what are our plans with respect to the production – would be targeting one movie a year or something like that?

Hiren Gada: I will just repeat some of the points we had covered in our last call, but I am sure there are many more people, to give a background, so being a part of the ecosystem, there is some amount of production activity that we need to do strategically within being a part of the ecosystem, but our effort has always been to keep the investment as low as possible, and the thought that we have overall internally is that at any point in time, not more than 10% of the balance sheet should be exposed to New Film production, in fact, for the last many years, it has been far-far lower than that. Going forward that would continue, we would target at probably maybe one film a year or thereabout, again over there, I admit that we do not have the creative capabilities and rather our play on the Reissue and the Digital content is playing out so nicely, so we do not want to really defocus from that, is just this, as I said that being part of the ecosystem we need to do it. So we look at partnering with our creative talent as well as on the financial side how we can further minimize the risk. So Hunter was in fact an ideal case in the similar thought process where the creative partners are Phantom Films which is Anurag Kashyap and Vikas Bahl, etc., And on the financial side actually there were four partners. So our exposure actually as far as Hunter is concerned was probably less than 1% of the balance sheet. And within that also through the distribution deal, etc., whatever we had done, we had helped ourselves completely prior to the release of the film itself. The good thing is that as far



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as the Digital Media is concerned, Hunter is ideally suited film for the Digital Media, I am sure everyone would understand and agree with that. So in that sense I would say we have done well on that one.

Yogesh Kirve:

For Mr. Maroo, so we did a lot of our Digital Media revenues from YouTube. So, are there any plans beyond YouTube not necessarily from near-term perspective but over a longer-medium-term, would you be looking in terms of pay models or something like that?

Jai Maroo:

In fact, we already are it is just that we focus on YouTube because today a very-very significant portion of the overall video consumption in India is happening on the YouTube platform and hence that has been the focus of a lot of the conversations. But having said that our endeavor as a Digital Media content owner and distributor is always to have the widest possible presence in terms of being available on multiple platforms and then once you are on a platform to also deepen the presence in terms of how much more you can engage with the consumer as well as what more variety of content you can offer. So, we already have, for example, one of the things we talked about even during the road shows is prior to listing, when the iTunes India store launched, we were one of the launch partners at that time, we have movies available on the 'pay model' on both iTunes and the Google Play Store, and in addition to that we partner with multiple other platforms including the likes of Netflix to whom we supply content as well. So in that, as a strategy, we do not favor one commercial model over the other, we support all commercial models, whether it is subscription, whether it is transactional paper download, paper stream or advertising supported; however, do believe is that you have to tailor the content package or the manner in which you slice and dice content according to the strengths of the platform and work on increasing your consumption based on that platforms dynamics. So the kind of consumer on iTunes is different from the kind of consumer in YouTube and how do you understand the dynamics and then optimize your revenues accordingly is our constant endeavor.

Hiren Gada:

Just because YouTube is growing, it does not mean that all the premium content is up and available on YouTube for free. There is a whole lot of segregation internally and windowing more importantly, internally that we do of the content that premium content is meant to be for 'pay' platforms and therefore we focus that revenue. So the whole idea being that wherever the consumer is going, we need to catch the consumer in different ways that we can serve or customize, our offering to suit the consumer.

Yogesh Kirve:

After YouTube, which is our biggest platform in terms of New Media?

Jai Maroo:

Collectively, if I was to look at the various services which the Indian telcos are offering and that is also one of the points in our earning release that Mobile Database revenue continues to grow. What we are seeing actually is that even today... and everyone knows this in some form or the other is that, the device story and the telco story continues to play out, internet consumption is increasing particularly through android or mobile devices and a lot of the initial



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consumption of services of new consumers or mobile internet continues to be through platforms that the operator has put up or our platforms but with the operator has a wallet and therefore operator billing. So mobile operator base revenues actually continue to show extremely strong growth overall as an industry and definitely that is translating to our share in that translating to the consumption, we are seeing on our content and our services.

Moderator: Thank you. The next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.

Sunny Agarwal: Just taking ahead the previous point wherein you are pointing that the premium content will be on a Pay platform Subscription-based. So just want to understand from industry perspective, when do you see this Pay platform or Subscription-based revenue started accumulating in a major way or dominant way for the industry, so just your thought process on that?

Jai Maroo: So, currently in India in the short term what we see is that definitely Advertising-based platforms have been dominant particularly on mobiles, ad-supported platforms currently what are dominating and we see that whether it is not only YouTube if you look at the most recent launch which has garnered a lot of press which is Hot Star again in a similar manner. Having said that a lot of the consumption is actually already coming through a Paid model in a different way which is the mobile consumption which I was just talking about in response to the earlier question where consumers on mobile are already used to paying for content; however, consuming it in byte size chunk. So we are talking about one rupee, five rupee, thirty rupee subscription or five rupee download or even for that matter a one rupee video like which Airtel feature so popularly in its campaign, for example. These are all different models where you have to slice and dice the content and the consumer is willing to pay for that. Internationally, the Pay model is far most established and we see that to the extent of where our partnerships are starting to deepen with international platforms, those will be Pay revenues, in India it will take a little bit more time for that ecosystem to emerge in its completeness, the way it has in the west; however, as we said, what we are doing consciously is we are holding back some of our premium content to support Pay platforms or we window our content so that we put it on Pay platforms first and then on advertising supportive platforms, and the idea is to do so in a way that in the long-term you want to support both commercial models just like in the U.S. Netflix and Hulu and YouTube all the three coexists and deliver substantial revenue. The idea is to go in that similar way in India as well.

Hiren Gada: One of the constraints right now for Pay platforms to really grow... and there are many constraints one of them being the infrastructure issue, because we do not have full bandwidth for a video service to have an ideal experience, once you have that happening, I think the propensity for consumers because already the habit is being formed in terms of consuming content through various Digital platforms; and secondly, also as the base of handsets and hardware and user has been growing rate of phenomenally well, as that also grows to a certain extent, I think combination of those will really lead to faster or better adoption of the Pay



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model. Now how soon that may be? I guess it is a combination again of how fast the bandwidth infrastructure issue get sorted out and things like that. We see that there are many roll outs being planned over the next 12 to 24-months. So, we are quite hopeful that at least that will be a good point to further consumption to grow, leading ultimately to a paid ecosystem develop. In fact some of the currently free models that are there, are also looking at how we can also introduce some of them may look to introduce a Pay model, for example, Google has YouTube which is a free service, but it also has Google Play which is a paid service. There is everyone kind of flirting with paid models.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: I just want to understand better the variation in the quarterly gross margins. If you could just help explain why there is so much variation in quarterly gross margins?

Hiren Gada: Our overall effort is to maintain certain ROI or IRR on deal; now there are two parts to ROI; one is turnover and one is margin. Particularly, I am saying more from the Traditional Media point of view that there would be certain high turnover lower margin kind of deals that we would have done, which has pulled down the average margin but total and it has improved the EBITDA by more than 50%.

Dheeresh Pathak: At least we do not have too much of history because you have only recently listed, so the March '15 quarter and the March '14 quarter compared to the first three quarters, the fourth quarter is high on gross margins,, any particularly happened in the fourth quarter which is something specific to that quarter?

Hiren Gada: It is difficult to attribute any specific reason to that, it is more I would say a combination of being deal base as well as operating level is available from the Digital business growth.

Moderator: Thank you. The next question is from the line of Karan Taurani from Religare. Please go ahead.

Karan Taurani: Sir, your EBITDA margins right now stand at about 27% and you give a band of about 23-28%. Obviously, this is a much higher number than we anticipate in FY15, because of New Media, could you see any levers or the margins are going (+30%) next year or something of that sort in FY17, some color on the margin if you can give sir?

Hiren Gada: As I mentioned that the growth in Digital Media is giving very good operating leverage, we have been seeing upwards of 400 basis points improvement in the Digital Media or the New Media margin itself. The issue till now has been a smaller part; so from 9% is now become about 12% of top line within this year itself and as we take it further and it becomes a larger part, say, if we take the next two-to-three years, the color of the margin will obviously keep improving. Then second component over there also which is perpetual library which we have



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and monetization of that as that keeps kicking in further. I would take a two to three years perspective towards this.

Karan Taurani: In terms of dividend, do you feel better dividend payout ratios in the future?

Hiren Gada: As earlier discussed also that we are in an overall investment phase and as we discussed earlier during the call also with the investment build-up of the libraries happening, so till this phase stabilizes I think we would want to conserve cash flow and have just a base level of dividend payout in terms of profit percentage so that we are able to invest more into the opportunities that we are seeing.

Karan Taurani: In terms of working capital, can you give me some color going ahead?

Hiren Gada: So, we expect this investment phase overall. As far as working capital is concerned to continue over the next probably two-and-a-half odd years and post which combination of two or three things, sales and acquisition cycle would have stabilized, Digital Media would have grown to a certain extent where it would throw up free cash flow and contribution from a lot of the perpetual content where the investment has already happened upfront in terms of cash flow, but the return would be starting to generate from that period. So after that period is something that we expect that this free cash flow generation picture would be very different.

Moderator: Thank you. The next question is from the line of Varun Daga from Girik Capital. Please go ahead.

Varun Daga: Just on the line of your further investments, do you think you will need to raise anymore debt for that or any further dilution in terms of building the Content Library?

Hiren Gada: At this point we still have some unutilized amount from the IPO proceeds itself lying with us and post IPO our debt-equity has fallen into somewhere around 0.5. So there is room for certain amount of debt to go up if the need be. I would not rule that out at this point in time considering there is some marquee Content Library that becomes available and it would really help us boost some of the overall presence. I do not anticipate at least an equity dilution over here, prior to the IPO, we had a debt-equity of 1.1. So we are comfortable with a certain amount of debt given the amount of cash flow that gets generated and particularly now with the growth in the Digital business the cash flow generation is far stronger.

Hiren Gada: Thank you very much everyone for participating and spending the time to understand our results more and we hope that over the passing time we would do better and better.

Moderator: Ladies and Gentlemen, on behalf of Religare Capital Markets Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.