



“Shemaroo Entertainment Limited Q2 FY 2015
Earning Conference Call”

November 12, 2014



ANALYST: MR. VIKASH MANTRI – VP ICICI SECURITIES LIMITED

**MANAGEMENT: MR. HIREN GADA – CHIEF FINANCIAL OFFICER AND
DIRECTOR – SHEMAROO ENTERTAINMENT LIMITED
MR. JAI MAROO – DIRECTOR – SHEMAROO
ENTERTAINMENT LIMITED**



*Shemaroo Entertainment Limited
November 12, 2014*

Moderator: Ladies and gentlemen, good day and welcome to the Shemaroo Entertainment Q2 FY'15 Earning Conference Call hosted by ICICI Securities Limited. 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mantri from ICICI Securities. Thank you and over to you Mr. Mantri!

Vikash Mantri: Good afternoon everybody. We at ICICI Securities are pleased to host Shemaroo Entertainment Q2 FY'15 Conference Call. With us we have the management of the company represented by Mr. Hiren Gada – the CFO and Director and Mr. Jai Maroo – Director of the company. Over to you sir for initial remarks and then we can have the Q&A.

Hiren Gada: Thank you Vikas. Good afternoon friends everyone and thank you very much for taking the time out and joining the earnings call and taking the interest in understanding our company more. Since it is our first call after our listing, I thought that we could take some time and actually just quickly take you through the overall business model and how we are positioned in this business because there may be many people who may not have covered or understood the company earlier. So for the benefit of that we will just quickly do that.

So Shemaroo Entertainment is primarily an aggregator, owner and distributor of film entertainment content and when I say that what I primarily mean is that we buy the film copyright and distribute it across, we own it and distribute it across various distribution mediums.

In terms of overall dealing the work on primarily our area of work is what we call 'reissue or catalogue content' and our library is around 2900 plus titles that we own and the ownership is in two manners, either we own the perpetual or the complete ownership rights of a film wherein we will brought out the producer locks up and buy out of his interest in the film or we own partial rights or aggregate rights to the film which we may be earning for a specific medium of consumption or for a specific period of time. That is how the content ownership comes.

In terms of distribution there is a traditional media which entails television, physical home video, overseas or international various movie services or many other services where film get consumed so for example you have in-flight (**Unclear**) entertainment or so many different other mediums where film gets consumed. Second which is a new media, which is the digital business where basically the new emerging media where Mobile, Internet, IPTV



*Shemaroo Entertainment Limited
November 12, 2014*

or all the various digital platforms that are being, where the films are now getting consumed and distributed today.

So overall in terms of the opportunities that we have been looking at and our industry that we have been looking at there is key growth in the digital medium which is led by a combination of growth in broadband infrastructure and the growth in or development in technology whereby the technology to consume films or content on various devices as evolved along with that the overall capabilities and pricing of various devices as also made it possible faster, better, cheaper to consume various content on those films. So these are two big drivers which are overall driving the consumption on digital platform and among the traditional platforms television is a key platform where post digitization and or as the digitization process is going on and various other aspects about digitization is adding a new flavor to the television, broadcasters earning or overall business model in terms of an added subscription revenue as well as a lower carriage fee and as a result of which there is a whole new set of film channels that is coming up and over and above film channels movies get consumed across a whole host of other television channels such as Music Channels, News Channels, Cable Network, Internationally there are quite a few networks which run in a Bollywood films so there is a whole lot of consumption among the traditional media. So that is in nutshell the business model of the company.

I like to now turn to the performance. So since this is our first performance results declared after our listing, I will just quickly take you all through two parts. First is the H1 performance, so H1 FY'2015 were the topline has gone up by 19% from 126 Crores to 150 Crores, EBITDA has gone up 32% from 31% to 40.9% and PAT has gone up by 73% from 10.47% to 18.14%. As far as margins are concerned the EBITDA margins have gone up from 25% to 27% and PAT margin has gone up from 8% to 12%.

Coming to the quarter's performance, so the Q2 FY 2015 which is the quarter ended September 30, the topline has grown 21% from 70 Crores to 85 Crores, EBITDA has grown 30% from 16.31% to 21.19% and PAT has grown 37 Crores 6.25% to 8.57% and this is on a year-on-year basis so Q2 FY 2015 versus Q2 FY 2014. EBITDA margin has grown from 23% to 25% and PAT margin has grown from 9% to 10%.

So that is in a nutshell the financial the highlights of the result. At this point I would like to open the floor for question if there are any.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nitesh Khatavkar from Asia Fund. Please go ahead.



Shemaroo Entertainment Limited
November 12, 2014

Nitesh Khatavkar: I am reading your quarterly results, I just want to have some clarity that there is a surge in the cost of materials consumed from the previous quarter, could you just throw some light on that please?

Hiren Gada: So given the changes in the new Schedule VI of Accounting Standard, we need to bifurcate the cost item into two parts which is one is the cost of materials and second is the changes in the inventory. So really speaking the impact of that is a combined impact is how it needs to be read, so what happens is that there are certain times when the acquisition activity is at a certain pace so we may go faster or slower and sometimes you know there are various processes due to which the acquisition may not have translated into a purchase to be booked and as a result of which there may be a certain lower amount of acquisition in that quarter and sale on the other hand would have been from the existing inventory.

Nitesh Khatavkar: Thanks a lot.

Moderator: Thank you. The next question is from the line of Surbhi Chauhan from J S Capital. Please go ahead.

Surbhi Chauhan: Sir, a simple question pertaining to your interest cost. Sir like you know in H1 FY 2015 you have 13 Crores your interest cost is around 13 Crores and for full year which is FY 2014 around 18 to 19 Crores. So my question is very simple is that like you know with 140 Crores as we IPO proceeds can we expect going ahead in full year financial year which is FY 2016 your interest cost to come down well below 10 Crores and eventually you become a debt free company going ahead?

Hiren Gada: There are two or three parts to that, first and foremost the IPO we did was for 120 Crores and net of the expenses actually the amount in hand is 108 Crores.

Surbhi Chauhan: So 108 Crores you got, okay.

Hiren Gada: That is the first thing. Secondly as far as the IPO proceeds is concerned, the object of the issue was really to find the working capital which is primarily in terms of acquiring more content and getting more copyright etc., to be acquired in the business, so it was not really to repay any of the borrowing. Overall we have been carrying the debt equity of roughly in the range of 1% to 1.1% over last few years which we have been servicing from our operational cash flows. It is important to note that the company has been in an investment mode for the last about two to three years, considering the various opportunities that I just listed out earlier when we began, we expect that this kind of a phase would last for a next about couple of years, after which the overall investment cycle and combination of cash flow from the investment that have been made as well as the growth that is anticipated that



*Shemaroo Entertainment Limited
November 12, 2014*

would kind of help to or that would make the cash flow positive in terms of the net investment that is happening. So we really are looking at the overall cash flow scenario from about two to three year perspective not really a one year or two year perspective and so that is second part. Third part is that, yes temporarily certain limit drawdowns and all of that of our working capital CC limits are all have been reduced so that may have a shorter term interest cost impact, but that is for the period to which the deployment of the fund would kind of take place.

Surbhi Chauhan: As you mentioned, like going ahead like to the horizon is three to four years, so obviously going ahead we are expecting our company to become debt free eventually and what is your perspective on this, could you please throw some light on your digital business like you know what is your I mean to say segment guidance or something you can talk about going ahead. What kind of revenue are you expecting from this particular segment as well as mobile segment which is packed media?

Hiren Gada: Just to clarify the mobile segment is within the new media component itself, because the new media basically involves all the various digital mediums of consumption so mobile, internet, IPTV, DTH various non-traditional you can say which are the new emerging mediums of consumption. Now two things I would do here is that one is I will ask Jai to address this question on the digital part in terms of you know various things. Overall in terms of, and then we will come back to your question on guidance or whatever, how do we see the growth. Jai!

Jai Maroo: New media overall, I mean if we talk about how HI has done for us, we have seen a very, very strong growth overall in the digital business, a few key highlights for us that for example our first set of movies went live on Google Play. We have seen on the mobile segment as you mentioned in fact we have seen very, very strong growth in the VAS business which is similar to the trend that we see overall when you look at the operators where the data consumption portion of the VAS revenues for them has been their fastest growing segment overall within VAS. We see that reflected in the growth of our overall VAS consumption as well. On the other side we have YouTube which continues to grow from strength-to-strength for us in the earnings announcement we have actually given the graph of our views we have this month now touched where we are doing 60 million views a month on YouTube, now which is literally 2 million views a day and that continues to grow from strength-to-strength for us. Overall you know YouTube being driven us primarily an ad supported consumption formate if you look at the outlook for digital advertising overall in the industry reports, digital advertising has already reached 10% of overall media and entertainment ad spend and is slated to grow at between 30% and 45% CAGR depending on which industry report you read but the lowest CAGR expected is the 32% actually and we



*Shemaroo Entertainment Limited
November 12, 2014*

actually see that tracking in the way YouTube has been growing overall. So that I think is a key point for us in terms of growth going forward.

Hiren Gada: I think our endeavour was really be to obviously to grow faster than that and I think we are seeing enough momentum on our content consumption in terms of the connect it is having with today's digital audience and today's digital consumer as well in terms of connect in terms of number of people and views and secondly even in terms of time spend we are seeing on you know platforms Google and YouTube and all on that to be pretty interesting kind of trend so these are just few indicators to show that the content is deriving very good amount of traction and we expect and our endeavour will be to grow faster than the industry and there is one more small point just to add over there is that in terms of investment, so from the proceeds of the IPO definitely there is going to be a good focus on the digital business so for example even in this announcement that we have made, we just acquired the entire catalogue of a small music level focused on devotional content with around 3000 tracks which is called Gunjan Music. Now these are the things which add to the overall thing and kind of help us add an additional small, although it is small but an interesting category in addition to the Bollywood content. I hope I have answered your question.

Surbhi Chauhan: Yes.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: Sir during the quarter your trade receivables have increased by nearly 100 Crores from FY 2014 so could you just take us through that line item and what percentage of this would be to the top three broadcasters if you can elaborate that as well?

Hiren Gada: Two questions, so first is on the increase, so, you can say that little one time kind of a thing and already this number, as on date has actually come down by about 53 Crores and we expect that by the end of this quarter, it will settle down to the normalized industry trade practice which is about between 180 to 200 days which has in terms of the number of days. So that's one and second one broadcaster now, see this is confidential information and we really are not in a position to discuss that.

Ankit Kedia: Sir I am not asking which broadcaster, I am just saying what percentage comes from the top three broadcasters?

Hiren Gada: I understand that but you know I am really sorry this is confidential information not really in a position to.



*Shemaroo Entertainment Limited
November 12, 2014*

- Ankit Kedia:** Sir if not top three, how much is from broadcasters?
- Hiren Gada:** A large part is from broadcaster, I mean that's all I can say.
- Ankit Kedia:** Would it be more than 70% -80%?
- Hiren Gada:** Sorry, it is difficult for me to give a number breakup in that sense.
- Ankit Kedia:** Sir my second question is regarding the inventories, its come down which means that we have used some of the inventory in the thing, so going forward with the 108 Crores which we have acquired so how much more inventory can we look at in next one, one and half years we will procure?
- Hiren Gada:** A large part, as we discussed earlier a large part of the deployment of the IPO proceeds will be going to towards fresh content acquisition and I would imagine that, I mean I cannot give an exact number because obviously it is a moving kind of a moving situation at the market but as I have said that the target is to more than grow the inventory add more content and I think that is the more important.
- Ankit Kedia:** Sir so just on that content till which year is today you are looking at buying the aggregate rights, I believe that but 2018 most of the rights have been sold in the market so could you give some more clarity at what more longer frame can we monetize that library if we buy now?
- Hiren Gada:** Sorry I did not understand that question, you are saying in terms of 2018 commencement right?
- Ankit Kedia:** Yes.
- Hiren Gada:** No I do not think that is the case, I mean there is a whole lot of content that is available which is commencing in 2015, 2016 and 2017. I mean we are already under negotiation for a lot of such content and some of which we have already acquired and locked in also but I mean we are in a process of doing some of those deals but there is a lot of content that is currently available which commences the right commence in 2015-2016 and 2017.
- Ankit Kedia:** Sir one last question, could you give the breakup of revenues in terms of how much came from perpetual, how much came from aggregate for the first half?
- Hiren Gada:** Actually unfortunately this is information that we have not disseminated to public at large so I am not in a position to give that.



Shemaroo Entertainment Limited
November 12, 2014

- Ankit Kedia:** Sir how do we analyze your revenues and how do we project your revenues going forward?
- Hiren Gada:** That is an interesting question. I guess the larger question of benchmark is going to be in terms of where the industry or the various revenues streamed underlying businesses are going, so you know TV is growing at a certain percentage, Digital business is growing at a certain percentage so our endeavour would be to grow it obviously faster than that or at least at that rate, that is probably one way of looking at that. As far as perpetual rights is concerned one other way to look at it would be as per the industry practice the right typically mainly TV platform are sold or assigned for a five year period normally so which basically means that one fifth of the library comes up a renewal or reissue every year. So you can say that around 20% of the films is something that will have a TV monetization. I mean 20% is the one number it could be between 15% and 25% in any given year would be the number that number of titles that would at least sum up a TV monetization in a given year.
- Ankit Kedia:** That could be what percentage of our total revenues?
- Hiren Gada:** Like I said that you know we are not disseminated that information so I am not in a position to but I try to give you a different indicative way of looking at the contribution of perpetual right.
- Ankit Kedia:** Not an issue Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** Sir you explained the receivables have gone up for one quarter or something can you explain why did that happen?
- Hiren Gada:** So basically there were certain deals where the payment schedule was falling due and our receivable schedule from the clients are falling due in this October to December quarter, so which is that, that is on track and already that number is down.
- Vikas Mantri:** So as of now we were setting with as of last quarter end we were setting with 140 Crores cash and you have said that receivables have gone down already by 53 Crores so now we are close to 193 Crores cash is that?
- Hiren Gada:** Not cash it is receivables.



*Shemaroo Entertainment Limited
November 12, 2014*

- Vikas Mantri:** No I am saying because your cash was at 140 Crores at the end of the last quarter and your receivables have gone down by 53 Crores your cash would have gone up by that much amount?
- Hiren Gada:** Actually there are payables also so if you see the payables amount, so actually my net working capital like you know, last half year to this first half is actually up marginally only, so there are some payables, so we have kind of you know match those schedules basically.
- Vikas Mantri:** So there is a 30 Crores increase that have happened in payables?
- Hiren Gada:** Yes 36-odd Crore has happened.
- Vikas Mantri:** Even if you have paid all of that 30 Crores you are still ahead with 23 Crores cash?
- Hiren Gada:** No and then there is some acquisition inventory addition that has also happened.
- Vikas Mantri:** Sir even if I were to say that 100 Crores was an anomaly and it has gone down by 53 Crores still that 47 Crores increase in receivables over the last six months is a very high amount.
- Hiren Gada:** Which is what I explained that we expect that by end of this quarter based on the various payments schedules that we have, end of this quarter this would normalize.
- Vikas Mantri:** So what is the payment that you are expecting this quarter totally?
- Hiren Gada:** Of hand right now I do not have that number with me, but I can just check on that numbers.
- Vikas Mantri:** Can you give us the breakup of your revenues in terms of digital and the other that way and also the Home Video business which is relatively not growing?
- Hiren Gada:** So what currently the earnings release that we have made in that we have just given the broad breakup in terms of, we would now looking at it is the traditional media and the new media so the traditional media has in the first half has grown from 10.73 Crores in the corresponding first half to 15.97 Crores or 16 Crores in the first half of 2015 which is a 49% growth and the traditional media is grown from 115 Crores to 133 Crores for the first half.
- Vikas Mantri:** In terms of the monies that we have raised, in what time frame you would be able to deploy this 130-140 crores that we have in terms of because inventory is actually down in the first six months?



*Shemaroo Entertainment Limited
November 12, 2014*

Hiren Gada: So two things, inventory was down in the first six months which obviously from the operational cash flow of these debtor realization also there are certain deals and inventories going up because of that and second is of course the deployment of the IPO proceeds which as I earlier mentioned is 108 Crores so 108 Crores are current outlook of thought is that it will take about nine to 12 months to deploy that capital fully and the key important thing in that is you know our overall hurdle in terms of returns of in terms of cost of acquisition is very important because we really do not want to just spread the money around kind of a thing.

Vikas Mantri: Any amounts that you have already decided to deploy or deals that you have already taken up?

Hiren Gada: There had a few deals. They are a little sensitive so cannot discuss over here but few deals already we have concluded.

Vikas Mantri: This money that is receivable of 100 Crores it is from the broadcasters only the increase that has happened of 100 Crores?

Hiren Gada: Again as I said earlier is it is a little sensitive information so not able to give that breakup.

Vikas Mantri: It is from broadcasters are not sensitive at all?

Hiren Gada: Majorly I would say broadcaster.

Vikas Mantri: That is all from my side.

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

Rohit Dokania: Good afternoon Sir. Thank you for the opportunity. Sir just three questions from my side. One would be given the fact that everybody is realizing the potential of new media are we actually seeing an increase in cost once the rights are coming of a renewal I am talking of the aggregation right?

Hiren Gada: So the cost of aggregation rights typically obviously follows the underlying recovery on that respective medium and therefore yes to the extent of the revenues going up the cost definitely to an extent goes up. Now there are two or three things a way we look at it, it is for us acquisition we have our internal criteria in terms of IRR and ROI that we need to realize and because of which we look at the overall realization and the cost and we walkaway from a deal if it is not really viable for us that is one. Secondly today if we see



Shemaroo Entertainment Limited
November 12, 2014

particularly on some of the platforms like YouTube some of the channels that we have build like say a Filmy Gaane, which is a dedicated classic Bollywood so Retro Bollywood Music channel or a song channel, these are some of the advantages that we have build for ourselves in this segment where we get a certain amount of views or certain amount of traction on so many of the content that we keep delivering or we keep deploying on these platforms so and thirdly also on a whole host of platforms as you mentioned that you know VAS business or on Google Play so many different platforms where we have been deploying content there is a certain advantage that we have been building as a large content owner and vendor so that we feel is very interesting place to be in.

Rohit Dokania: Also if you can throw some light as to let us say if for the first time when we are able to sell our five year rights, for a movie say it earned Rs.100 how much does it earn when we sell it again after those five years in the sixth year is it 100, is it lower is it higher?

Hiren Gada: So the overall industry, obviously we fall in the industry so it's a larger industry point, so how it works is that when the first issue of a film happens, the first release of the film which you know is a five to seven year kind of a television licensing.

Rohit Dokania: Which is the second cycle, so for you the first cycle is the actually the second cycle?

Hiren Gada: Okay, I just quickly come to that also, but to give a larger perspective if the first cycle of that Rs.100 which is the movie's first cycle where we do not participate if it that was Rs.100 the second cycle would be anywhere between Rs.15 to Rs.25. From there onwards our experience is that cycle-to-cycle the values have been going up between 80% and 120% roughly you can say a 13% to 15% kind of inflation has been noticed.

Rohit Dokania: This is CAGR or this over?

Hiren Gada: CAGR, so 80% to 120% is cycle-to-cycle, which breaks down to about 13% to 15% CAGR.

Rohit Dokania: You are saying this Rs.100 became 15 to 25 then in third cycle how much will it become?

Hiren Gada: If the second cycle was Rs.100 the third would be anywhere between Rs.180 and Rs.220.

Rohit Dokania: Okay so we are actually seeing quite a good inflation basically?

Hiren Gada: Yes.

Rohit Dokania: So the sort of related question to this was if I look at your film library. I think the latest movie that you are barring probably 'ISHQYA' belongs to the year 2006-2007 both in



*Shemaroo Entertainment Limited
November 12, 2014*

perpetual and in aggregation rights, so why are we not able to acquire latest movies is it because you know the producers are not giving it to us or they are retaining it or they are probably aggregating it with our competition or something of that sort? The question I am asking is that I mean I understand that we obviously have a very strong library but let us say if and when the TV rights prices fall drastically for the first five years of cycle let us say here on so at that point in time will be face higher pressure vis-à-vis the competition because our rights are slightly older?

Hiren Gada:

No actually that is not the case. In fact the way I would look at it is see our as I earlier mentioned by definition we do not participate in the first cycle so the stage that which we enter is five to seven years after the film. Now for us when five to seven years are over, the way we look at the thing is not that for example we are in 2014 I do not sit with the list of 2009 and say that which are these films I want to acquire. That is not the way we look at it. We look at it more from the point of view that which are the films gaining traction overall and a lot of it is irrespective of age. So you know you see a film like "Jab We Met" which we have multiple year rights and multiple platforms rights for now that kind of a film you know transcend time or age kind of a thing so it is not important in which year that film got produced because once that initial first cycle of first five to seven years is over then whether you are on the second, third or fourth cycle it does not matter what really matters is how well content you are acquiring, connects to the audience so that is really the key focus in terms of acquisition more than anything else. We do not anticipate or see in fact there are some conversations which we are currently negotiating or discussing for various libraries which are even later than this whatever 2006-2007 timeframe that you get, so in fact what we have also observed is that typically, actually the producers the creative partners of many of the films that are currently being produced are the final owners of those films so there is again that is where we have whole lot of advantages that we have build.

Rohit Dokania:

Sir lastly your comment on let say if the film right prices fall for the first cycle, would we the under pressure because of that?

Hiren Gada:

At this point, I think the first cycle and subsequent cycle prices seem to be quite unlinked because of probably two reasons that I can think off. One is that the second cycle actually has not seen that kind of inflation what the first cycle has seen I mean in terms of pricing and all of that or whatever, I would say second cycle is not the right one, it is reissued catalogue and secondly the way we look at it is that in terms of monetization today or telecast and things like that see, film is the staple food of movie channels so if you see any given movie channel it looks to acquire anywhere between 15 and 30 films in a year, but it requires several 100 films in fact probably in the range of a 1000 or thereabout films to actually run its show all the time. So really catalogue or library is the staple food of the channel and therefore that is something which always sees a certain amount of steady



Shemaroo Entertainment Limited
November 12, 2014

demand. In fact with digitization in the last four years we have seen a plethora of channels actually getting launched so that again obviously leads to volume uptake.

Rohit Dokania: Thank you so much for your input Sir. Wish you all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Hiren Gada: Thank you very much ladies gentlemen for participating and spending the time to understand. We hope that you got a better perspective of the business where it is and where it headed and we hope that the excitement of the performance that we have put in I think that you all kind of have understood.

Moderators: Thank you very much members of the management. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.