



“Shemaroo Entertainment Limited Q3 FY16 Investors Conference Call”

January 25, 2016



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MODERATOR: MR. RUMIT DUGAR – RELIGARE CAPITAL MARKETS



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Moderator

Ladies and Gentlemen, Good Day and Welcome to the Shemaroo Entertainment Ltd. Q3 FY16 Investors Conference Call hosted by Religare Capital Market. As a reminder, all participant lines would be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded. I would now like to hand the conference over to Mr. Runit Dugar. Thank you and over to you, sir.

Runit Dugar:

Thanks Lizann. Good afternoon Ladies and Gentlemen. On behalf of Religare Capital Markets I welcome you all to the Q3 FY16 earnings call of Shemaroo Entertainment. We have with us today the Senior Management of Shemaroo Entertainment represented by Mr. Hiren Gada – Whole-time Director and CFO, and Mr. Jai Maroo – Director and Head of New Media.

I will now hand over the call to Mr. Gada to brief us about the Q3 results and the latest developments during the quarter. Over to you, sir.

Hiren Gada:

Thanks Runit. Good afternoon everyone and thanks for spending the time and interest in understanding the results for the nine months. So in a nutshell I will just quickly discuss that. Happy to report that the top-line has increased 15% YoY for the third quarter ended December and profit after tax has increased by 28% to 12.8% YoY. Margins, in terms of EBITDA margins have grown to 26.6% and PAT margins have grown to 12.7% which is about 130 basis points increase.

More importantly, in terms of the breakup of the business segment, I think as we have been discussing over the last few quarters our excitement about the New Media segment, the New Media division, I think that continues and very happy to report 68.3% YoY growth in the New Media division which is to 16.64. In fact, nine months is at 45.84 crores versus 25.86 crores and happy to note that versus full year FY15 of 37 crores we have already crossed that during this quarter, so it continues to be strong.

Couple of interesting operational highlights within that, one of them is, it is a very happy moment to report that in the month of December 2015 we have crossed 100 million monthly views on YouTube and as we have earlier discussed about some of other segments like Filmy Gane channel, again another interesting property of us the Shemaroo Kids YouTube channel has crossed more than 100,000 subscribers.

So these are some of the interesting trends that indicate that how much our content is connected with the current online audience, as well as the underlying demand for the content. With that I would like to open the floor on questions because we can discuss the remaining through the Q&A. Thanks Runit, over to Q&A.



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Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Shalini Bhuska from Quantum Securities. Please go ahead.

Shalini Bhuska: Just one question, like the inventory has gone up by about 100 crores in this year, so if you could just give a sense as to which have been your top takes, as in your top 10 movies that you have picked up?

Hiren Gada: So a couple of library that we have earlier shared, on one of them in fact we made an announcement is the Red Chilies library which includes 12 Shahrukh Khan films including Om Shanti Om, Main Hu Na, etc, that is one. Another library that we have acquired is from the stable of Tips Industries which includes movies like Ajab Prem ki Gajab Kahani and many such super hit films, two Salman Khan films and many other films within that library. And these are just some of the larger examples and there are many more that have been acquired.

Shalini Bhuska: So you are saying 12 movies from Red Chilies?

Hiren Gada: Yes.

Shalini Bhuska: And could you just say how many from Tips?

Hiren Gada: Tips is I think some upwards of 30 movies.

Shalini Bhuska: And sir, of this inventory increase of 100 crores, how many movies, if you can just give a broad figure like between 10 to 20, obviously the figure is more than 40, sir if you could just give a broad figure, how many movies you have acquired say above 60, above 70 like that if you can give a figure.

Hiren Gada: That number would be, I will have to check, actually I do not even have an estimate but if I have to just at the top of my head put something it should be upwards of 150.

Shalini Bhuska: 150 movies?

Hiren Gada: Yes.

Shalini Bhuska: And sir my last question, we have in the last three quarters the growth in traditional media has been a little weak, so is that the kind of growth trajectory for traditional media that we should expect going forward also?

Hiren Gada: So traditional media has many aspects to it within the traditional media and it is a combination of all of that which is the growth number that you are seeing is the aggregate of all of that. So one of the things that has been pulling down the growth of traditional media is the de-growth of the physical home video format which is the DVD business which is been shaving off some of the actual underlying growth in segments like television and all of that, that is one. And in



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fact if I zoom out and think about it, at least as far as we are concerned it is actually a very happy situation because physical DVD or home video business is actually more inefficient and expensive, more costly distribution system and really what is the mega or the larger trend that we all are seeing is really the transition from the physical media to the digital media and really you can see that that growth is more than compensating for the de-growth in this business.

- Shalini Bhuska:** Would you like to put a figure on that, like growth from your broadcasting business?
- Hiren Gada:** I am not in a position to do that, but overall I would say that that growth is fairly in line with the industry trend, I mean at a larger level we are not seeing anything adverse over there rather.
- Shalini Bhuska:** Sir about 15%?
- Hiren Gada:** No, the industry has been growing at around 10% to 12% and that is really where this business is.
- Moderator:** Thank you. Our next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.
- Nehal Shah:** Hi sir, this is Nehal Shah from Enam Holdings. I just had a couple of questions on the New Media side. Just wanted to understand what proportion of revenues right now do you get from YouTube and what are the ad-fill rates that you are seeing in YouTube and what are the CPM rates that you are sort of currently experiencing in YouTube on the average and how do you see that trending over the next two, three years?
- Jai Maroo:** So overall like we have said in earlier calls as well, roughly our proportion between the paced mobile ecosystem and the internet ecosystem is roughly 55:45 and within the internet ecosystem YouTube tends to be a larger chunk of that, roughly about two-thirds. In terms of the CPMs, actually it is difficult to give a specific number because there is a very wide range, it depends, there is of course seasonality to it but also it depends on where the views are coming from because obviously the CPMs in India are very different from the CPMs in the US and so on. So the actual CPMs that we get is a very-very wide range, but I was to give you more than an indication, typically when we look at blended CPM, the range that is seen across the year in different months and across the top partners based on our conversations with the top partners in the YouTube ecosystem, I would say CPM between \$2 and \$10 as a blended overall average is roughly what the top partners in the Indian ecosystem are seeing on YouTube. What we see is that gradually inching up but not very fast because a lot of the growth in the revenue is also coming from the increased inventory and the increased fill rate. So what we have actually seen is a significant good healthy growth in terms of the overall fill rates in terms of the percentage of the views that get monetized which three, four years ago would have been in the 20%, 25% range and today exceeds 45% in some quarters, in some months even higher. So that has been the trend that we are seeing overall.



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Nehal Shah: Just a clarification over here, when you say on the mobile ecosystem it is about 55%, so in that mobile ecosystem you do not have YouTube because people do obviously check YouTube videos on mobile?

Jai Maroo: Correct, so as we said in earlier calls, how we classify is basically where we are getting the revenue from. So YouTube on mobile, the revenue is still coming to me from YouTube, from Google, so I classify that in internet. When we say mobile ecosystem, basically it is revenue that is accruing to me from the operator ecosystem directly, as in my customers or the revenue is coming to me from an RCom, from Airtel, from Vodafone. So that is really the distinction. The mobile operator ecosystem, as we have always said continues to be important because of the sheer number of wallets that they control and because for a lot of internet subscribers in India their first experience of internet is actually the mobile internet via the operator ecosystem.

Moderator: Thank you. Our next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: My question pertains to this New Media itself, now considering the growth that we have seen over the past few quarters, we might probably do around 65 crores revenue in FY16 in the New Media. So what is the like over the next two, three years how big do you think this business can grow, or over the next three years can we expect a similar kind of CAGR that we have seen over last couple of years?

Hiren Gada: So there are two, three different ways to look at this. I mean in a nutshell if I have to put it, the industry is overall expected to grow at around 30% to 35%. Given our focus on this business and the investment focus that we have put in, we think that or we want to target upwards of 50% growth. Obviously, closer to 70% and 80% growth is really a high number and I at this point at least would not say that that is a trend going forward. While we may aim higher but in terms of getting between 50% and 60% I think on a sustainable basis should put us in a very-very good position over the next two to three years. In fact, as we are growing now the base itself is becoming much wider and wider, so even on that base to achieve a 50%, 60% and sustain over two three years I think will obviously take a lot of doing. So that is one way to look at the whole thing. Other way obviously is the key triggers that are playing out and where the overall consumption, the way it is shifting in terms of as we discussed about say an example of YouTube earlier. If I take a five-year view, I think many of these triggers would have played out like 4G or device penetration and all of that. I think at that stage we should aim at a much higher share of contribution coming out of the New Media business compared to what it is today. So when we did the IPO we were at close to around 9%, last year FY15 we did around 12% and already in this nine months we are at around 16%, so it has been rapidly going up in terms of its share of the total business and in a five-year perspective we should look at a substantially share of the overall total business.



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Deepak Poddar: So basically in terms of margin front I think we are currently doing about 26%, 27% consolidated EBITDA margin, so how is it different in digital versus traditional media, if you can give some sense on that?

Hiren Gada: So as the top-line of this is growing, the operating leverage of the New Media is actually kicking in and we are seeing some of that even in this last quarter where the margin was actually at, our net level has expanded by about 130 basis points. So the good thing is that this New Media business has a certain operating leverage and the revenues are growing faster than costs, I think that is in a nutshell the bottom-line I think.

Deepak Poddar: But currently what margins you are seeing in digital media?

Hiren Gada: So currently in fact the digital media business margins have actually crossed the company average, so we are seeing margin which are higher than the company average.

Deepak Poddar: So we are higher than the consolidated margin that we kind of report?

Hiren Gada: Right.

Deepak Poddar: So sir basically based on your commentary, like even if we see a 50% CAGR we might see a 25 crores to 30 crores kind of revenue in digital media over next three years. So is it safe to assume that at that time when my operating leverage would be much higher than what we are seeing right now, we can see a substantially higher EBITDA margin than what we are seeing right now, specifically in digital media?

Hiren Gada: So when we consolidated, I mean when we add everything back to the overall company, traditional media margin is going to kind of be in a similar range or maybe inch up marginally. So when you add up all of that, at this kind of a share of revenue the overall impact is going to be probably, I mean we are targeting that it should be around between 75 basis points to 100 basis points in a year.

Deepak Poddar: No, I was specifically talking mainly for the digital media only.

Hiren Gada: Yes, that I agree, that the digital business I mean at the current way in which it is rolling out or panning out, we are seeing and if it continues in this way the operating leverage is going to remain better over the next two to three years.

Deepak Poddar: Right, because our cost are mainly fixed, so basically if the digital media grows...

Hiren Gada: So I would not say all costs are fixed, I mean in fact in this assumption I am actually assuming that the content cost as a percentage kind of remains constant which means that the content cost is expected to grow up and will grow up. I mean all the producers are reading the same news papers that we all are reading which talks about Netflix having come into India and



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Flipkart having multi-billion dollar valuation. So that cost question of the content is bound to happen. So we have kind of kept it at a constant, I mean if you assume even that is constant there is a operating leverage due to the other cost elements, people, infrastructure, digitization, conversion, etc because now you are playing everything at a much higher scale.

Deepak Poddar: So in that case then what will be the optimal level of EBITDA margin that one can envisage in digital media once we achieve some scale in our business?

Hiren Gada: Actually it is very difficult to put it at this point in time and I fear that I would end up misleading if I put a number actually.

Deepak Poddar: Fair enough, no problem My final question was on your content offering that we have. Is it that our content offering is old enough or any effort we are doing to improve our content offerings in terms of our movies gamut that we have?

Hiren Gada: No, as we discussed earlier that some of the acquisitions for this year have included libraries like Red Chilies which includes Main Hu Na, Om Shanti Om, etc or even Tips library which includes Ajab Prem ki Gajab Kahani and movies of that kind of thing. See, one thing here is clear that we are not in the pre-release game and therefore we will not be looking at first cycle of movies like Bajirao Mastani or Dilwale kind of movies for any of, these on a pre-release. Post-release, we could have some of these content but primarily our play is all about having a low risk because of the predictability that the movie achieves after four, five years of its release. And therefore by default a lot of the content that we have is typically at least about five years old, if you take others it may be 35 years old also. So two things, one is that movies as a whole as the highest shelf life compared to virtually all other entertainment or media assets such as news or sports or anything and therefore even today we consume films which are multi-decade old, that is one. Second, indicator which I earlier also shared at the beginning is that today we have crossed 100 million views on YouTube with this kind of library and content, so that kind is indicatory enough of the connect that this content is having with the online audiences.

Deepak Poddar: But in future do we have any plans to acquire movies which are maybe two to five-year-old or something like that or it is not part of our strategy?

Hiren Gada: No, so what happens that is the industry trade practice is such that the typical monetization cycle are of five years each and the first cycle in fact sometimes extends to about seven years. Therefore, the stage at which we come which is the second cycle typically, already the film has completed about five to seven years which is why if I talk of movies like Ajab Prem ki Gajab Kahani or say some of the other ones which we acquired like Jab We Met, etc, these are all movies which have completed that five to seven years' kind of existence. And so if we have to do the first cycle which we have done limited few films, it is normally on a post-release basis, pre-release risk is something that we are very averse to taking.



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

Yogesh Kirve: Sir, offlate we have seen the entry of lot of subscription platform, so Netflix has entered India and also Hook and Spool have been there for some time. Now historically we have driven most of our New Media revenues from YouTube which are ad funded and I guess you mentioned it is around two-thirds of our contribution. So do you expect this revenue mix within New Media to change significantly in coming one or two years?

Hiren Gada: So before I hand over to Jai for this, just one small clarification is that in fact actually a substantial part of the revenue actually comes from the paid ecosystem which is a operator driven ecosystem which as Jai had asked earlier is roughly about 55%, YouTube forms two-third of the remaining roughly. So therefore even today there is a fair amount of revenue that accrues out of the paid ecosystem, but Jai why do not you share your thoughts on it.

Jai Maroo: So with the advent actually now of some of the bigger players, we do expect that gradually a paid ecosystem and subscription will start to be seen across the board. There have been attempts in the past but there has always been a level of pressure, but now that you have larger players coming in with deeper pockets and proven models, we do expect that they will be able to have an impact on the ecosystem. Having said that, a large portion of the consumption will continue to stay advertising supported, so I don't think that that is going away anytime soon. But yes, as you pointed out the proportion of it that is now going to come by the subscription ecosystem is gradually going to increase. For us, the good thing has been that since a good portion of our revenue is coming from the mobile operator ecosystem, there it has always been a paid ecosystem and in fact there has been from the point of view of the operator the kind of wallets that they have and from the point of view of the fact that we are able to do things across a wide variety of price points. So for example a Rs.1 video store, so it is literally sachet pricing. I think that has definitely helped in terms of paid consumption. But overtime, people like Hook and Netflix will definitely cause the paid ecosystem to go up.

Hiren Gada: I will just add one or two more points, I think one is that over a period of time what we anticipate the way we are seeing even today the things rolling out is that premium content will move to the paid ecosystem much faster and therefore will not be available in a free kind of a model and that is what combination of premium content, good bandwidth and some internationally proven or some proven models will help to fuel the paid ecosystem. And ultimately that actually will help to grow the overall profitability and margins much much faster because the ARPU or the per user kind of the money that you can make over there is substantially higher.

Yogesh Kirve: Sir, a lot of this platform they would have already started meeting their library, but when do you see I mean the real benefit will start accruing to us as well somewhat likes of Netflix or



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Hoop also start getting into this slightly older movies. So when is that sweet spot, how far is it away, if you can comment on that.

Hiren Gada:

So two things, I mean Hook already we have about 1000 titles up on Hook, so we have a fairly large tie-up and rollout on the Hook platform. And as we have shared in this quarter, our arrangement with school also has been enhanced in multiple ways. So we are participating very much in all of this, in fact the whole thing about films is that library content is staple diet of virtually every film service because new film has only a limited shelf life but on an ongoing basis it is a library content which actually drives or which supports any service. So to that extent, that combination of newer library, the kind of content we have I think we have extremely formidable library in terms of the commercial value and all of that. So today in fact I can very easily say that no one can run a meaningful Bollywood service without some content from Shemaroo. So that stage already we have passed quite some time back and we are one of the important port for all for virtually every platform that is kind of coming up. In fact the other limitation over there actually for many is that some of the existing platform, traditional media players are rolling out their own respective platform so they are holding out content and not giving it to many of the other platforms. So therefore an independent aggregator like us actually is in a much sweeter spot.

Yogesh Kirve:

Sir, regarding our content deals with this platform, so is there any sort of exclusivity which is involved or same content can be monetized on different platform like Spool or Hook or the content is given on exclusive basis?

Hiren Gada:

No, no in fact the entire New Media ecosystem is non-exclusive ecosystem. There could be sometimes limited exclusivity on time based thing on certain specific titles etc, but then the premium attached over there may be very-very high and it could be something like one-month exclusive window to a platform on a certain title or a certain library kind of a thing. I mean which is very small in a larger picture, but sometimes the kind of premium you are able to derive if someone is looking at that kind of a thing is actually far more compensates anything else. But in general 95% plus of the time the business is on a non-exclusive basis.

Yogesh Kirve:

And sir the revenues, is it a fixed fee or fixed price kind of deals or is it linked to the revenue that the platforms are able to generate?

Hiren Gada:

So broadly there are three kind of deal structures, I will never be able to comment on an individual deal of course you understand, but broadly as an industry there are sort of three types of deal structures that are most prevalent. So in some cases where a platform is sufficiently established, has built a sufficiently wide base of subscribers or consumers, even rev-share deals are common particularly with international platforms where a percentage of every transaction or a percentage of every advertisement that revenue is shared with the content partner. In the case of up and coming platforms, the more common revenue models are typically a minimum guarantee followed by a revenue share once that is recouped for the



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upside because it is a growing base. And in a few cases there are also fixed fee deals that happen but these are typically we are talking about shorter duration deals, we are talking about 12, 18, 24 months' type of deals or much shorter. So those are broadly the prevalent models in the industry, we ultimately have to look at a combination of what is the stage at which the business is at, what is the subscriber base and what are the rollout plans.

Yogesh Kirve: Just last question, this is regarding the content acquisition we had talked about some big libraries like Red Chilies and Tips, so overall on cumulative basis in the first nine months how much we have spent on content acquisition?

Hiren Gada: So that is something I will be able to give it, I mean right now it is not in this so I will have to refer back and come back to you on the total.

Yogesh Kirve: Sir, I am just looking at your P&L and if you look at for nine months there is a lying cost of raw material consumed which is 260 crores, so is that a reflection of amount we have spent on acquiring new content?

Hiren Gada: No, no that is actually how much has been charged on the basis of sales, the charging of policy.

Moderator: Thank you. Our next question is from the line of Shalini Bhuska from Quantum Securities. Please go ahead.

Shalini Bhuska: Sir, if you could, mobiles like 55% of the New Media business, so if you could just speak a little about it, like what kind of offerings do you have, that will be very helpful.

Jai Maroo: So in the mobile ecosystem broadly the largest chunk of our revenues comes from content consumption through mobile internet products, a very small proportion comes from traditional products, so CRBT etc which are well established but that is a very small percentage and not growing fast, the fast growth is consumption of audio, video and imagery content through the mobile internet. Now this includes both on-deck products and by on-deck what we mean is operate branded products where we supply a content as part of that product and make money whenever it gets sold. So for example, Airtel Rs.1 video store or a Vodafone Mobile Box Office and so on. So these are operator branded products which they are promoting to the customer and our content is licensed to be part of that product. The other big chunk of revenue and which is actually where most of the growth has been in the last few quarters has been the off-deck revenue model. Now here we are running the products ourselves on our own portals, our infrastructure. In fact, we run the product, we have the infrastructure for it, we promote the product through party ad networks and in this case the operator functions only as a billing and subscription engine for us and the revenue shares are obviously very different in this case with the operator keeping a smaller proportion and that is where a lot of revenue comes from today.



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Shalini Bhuska: So sir if I have understood this correctly, when you are saying off-deck you are essentially saying that somebody accesses say a website say Spool on which your content is available through their mobiles, is that a correct understanding?

Jai Maroo: In the case of Spool, I am getting revenue via Spool, no this would be in the case of where I am running my own. So for example, m.shemaroo.com is our mother portal, in addition to which we run a lot of smaller portals which are product specific. So if you were to visit m.shemaroo.com either directly or typically because the more common case is you have seen a promotion through a banner add perhaps on some other while you were browsing on a different site or a different app you may have seen an add saying whatever, supposing get clips of Dirty Picture, and you click through to it and you would come to a portal where a lot of the clips from Dirty Picture area available for example. And if you decide to purchase it, if you decide to click on one of those to download, it would say this is the cost of the clip or in some cases of a pack of clips and it will automatically detect which network you are coming from because we are integrated with all the operators, so hypothetically if you are an Airtel customer it would say, we have detected you are an Airtel customer so we will charge Rs. X to your Airtel bill, confirm? You say yes, boom your Airtel bill is charged and you continue to proceed to download that content.

Shalini Bhuska: And sir, so apart from say m.shemaroo.com which would be your other sites from which one can do all this?

Jai Maroo: So we actually have multiple sites, some of which are very product specific.

Hiren Gada: But primarily in fact a large part of it would come also from the operator's own portal, so there is an Airtel Live portal, there is a Vodafone Mobile Box Office or Idea Home Page, etc. so there are all these so there is content which even is displayed and consumed through these kind of portals.

Moderator: Thank you. Our next question is from the line of Harshit Shah from B&K Securities. Please go ahead.

Harshit Shah: A question from my side is that if you can elaborate your plans in terms of content for the Shemaroo kids channel on YouTube.

Hiren Gada: On the kids channel, what we have been doing, we have various partners that we have licensed content from, we have content from our own library because we ourselves have produced several films as well as TV series in the animation space which we put up not only in its original form but also repurposed in multiple ways or packaged in different ways. In recent times, we have also started creating a small amount of content, so for example nursery rhymes we have been creating and putting them up and overtime we would continue to add more



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content, some of which we are creating because we see specific areas that we want to develop as well as licensing both from local as well as international partners from time to time.

Moderator: Thank you. Our next question is from the line of Tejas Gandhi from Motilal Oswal Securities. Please go ahead.

Tejas Gandhi: Sir my question is, I just want to understand, as you mentioned about your acquisition of new content, so you mentioned that you buy content at the second monetization cycle, so what is the basic cost difference between first monetization and second monetization cycle, what could be the difference sir?

Jai Maroo: So normally the first cycle has what is called as spurt value, because whether movie is fresh and new there is obviously a certain underlying demand which is very high and that tapers off as the movie becomes older and therefore that spurt premium or whatever you may call it as a premier premium normally depending on the final connect of the content with the audiences, the value could drop normally between anywhere between 15% to 30% broadly of what it was on the first cycle.

Tejas Gandhi: And sir one last question is, as far as the New Media platform is concerned, you have content let's say Bollywood content, you have kids channel, you have other regional content, I just want to understand the breakup between your content let's say how much you get from Bollywood, how much you get from kids and other regional channels?

Hiren Gada: Definitely Bollywood is the key contributor overall because Hindi language has a very wide following and the kind of content and traction that Hindi is able to generate across all platforms is obviously very high. But I mean it is a combination of all others which also have a certain share, but Hindi obviously has a very high this thing. But within Hindi we run again multiple offerings, so we have our main mother channel Shemaroo, then we have our film song retro Bollywood song channel called Filmy Gane, we have Shemaroo movies where we showcase movies, we have 15 minutes' movies, we have Shemaroo comedy, there is Indian comedy. So there are many other such channels which slice and dice films in different banner. So Hindi film of course is a large driver of the business.

Moderator: Thank you. Our next question is from the line of Abhitesh Agarwal from India Nivesh. Please go ahead.

Abhitesh Agarwal: My question is, what is the working capital days for traditional business and for the New Media business?

Hiren Gada: So typically what we have seen in terms of, so inventory is a common pool, so it is difficult to breakup new and traditional media inventory in terms of if I have to breakup working capital, but receivables is really where the major difference comes between traditional and New Media.



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So the traditional media receivable days are between 180 to 200 days typically on an average and New Media is in the range of about 90 days.

Abhitesh Agarwal: And what is the margin difference between both the media segments?

Hiren Gada: As I said earlier during the call is that from last onwards actually the margin of the New Media business has crossed or gone above the company average, so New Media is currently doing a higher margin than the company average.

Abhitesh Agarwal: And like new India business as we recollect, as we think like it is the time and material cost like the costing, the fixed cost is the same but the revenue can go to like there is no higher revenue associated to the variable sales that happened, right?

Hiren Gada: You mean that are higher cost associated?

Abhitesh Agarwal: Like there is a fixed cost to the New Media, right, the rights you purchased there will be no extra cost.

Hiren Gada: But we have an allocation to the New Media, so there is a certain cost of content which is always attributed to the New Media and which is based on the assumption of revenue because even when we acquire we are paying for it and calculating the revenue projection and paying accordingly.

Moderator: Thank you. Our next question is from the line of Nitish Shah from India Indasia Fund. Please go ahead.

Nitish Shah: Just one quick question, if you can elaborate a little bit more on what you think the impact of Netflix is going to be overall not just specific to your company, I mean of you can give us some color on what you expect you can do with such a opportunity or a threat and also what do you think is going to happen overall with Netflix in India?

Hiren Gada: Sure. So I will take a couple of minutes for this. I think two or three things, obviously there is no doubt that Netflix is the largest most successful and most formidable online video service in the world and virtually by every parameter and entry of such a large player in India is of significance. For us it is an opportunity because it is one more shop front which is open for our content and given our model of being an aggregator and distributor of content and platform agnostic so really for us it is an opportunity. So these are given, the question is that how we see Netflix pan out in India? I think currently what they have done from what we are seeing is that it is an extension of their global offering what they have launched in India. So they have done like (+100) country launch with local pricing and local availability, because earlier we could not access Netflix from India even if you wanted to, now that access has opened. However, India is typically largely local content market, if you see whether it is theatrical, whether it is



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television or music or any other form of media entertainment content consumption if we see, India is a heavily local market unlike many other countries where Hollywood has got more than 50% share and is a very dominant industry. So in the light of that, Netflix will have to slowly, gradually expand their local offerings and that is the overall opportunity for the content ecosystem in general in India and of course for us also where as they expand their local offering and make it stronger, it is that. Secondly, we feel that one of the reasons for this kind of what we can call slightly muted launch, probably one of the key factor is the broadband penetration because we still do not have, I mean given the pending rollouts of 4G and those kind of things we still do not have a critical mass of broadband subscribers above certain level and therefore anything that you do at this stage probably may not necessarily be that rewarding or meaningful in terms of the results that it generates. So I think that could be one of the factor, other obviously would be that they would be studying the Indian market more deeply and create a focus on the India offering along with that. We think this will take probably a good two or three quarters from now and accordingly things will pan out, I think they are actively looking at the India market as a part of their overall strategy, I do not think that is any issue. But yes, I mean this is how I see it, but if I take a two, three-year perspective I think there is no doubt that Netflix is going to remain and become an extremely formidable player. Probably one more difference between international and Indian markets also is that India is a highly film centric market compared to some of the other western markets which have a much larger proportion of television or serialized content consumption, India somehow is a much more film crazy continent in that sense. So I think the content mix probably will have to be tuned accordingly I guess. End of the day I think what is important that, so Netflix obviously has a proven model and a superlative backend in place for that. I think what will help once all of this happens is that they will have a wide offering, I mean I think I have no doubt that Netflix will be a large player in the system.

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

Dheeresh Pathak: On the mobile platform where you are paid through the mobile operator and then on the internet platform where YouTube pays you, what percentage do they keep and how much they give you and how has that changed over the years?

Jai Maroo: So overall, obviously rev-shares is something we cannot really comment on, but in general revenue shares have been increasing over the years as the consumption of content has moved towards richer and richer media versus the earlier days of say a CRBT to today when you are consuming full length audio content, video clips and then even longer video content. Obviously the richer the media is the share to the content partners has been going up. Typically, on the internet platforms, particularly international platforms, by and large the revenue shares are always in favor of the content, so majority comes to the content owner. It varies but one example if I can give because it is a fairly well established standard, iTunes for



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example typically 30% Apple keeps and 70% goes to partners and that is a global standard no matter which country you are coming from, so that gives you one flavor to it.

Hiren Gada: And having said that, 50:50 I think is the bare minimum on the internet kind of players and to give a further flavor on the mobile side, the rev-shares to the content owner range typically from 25% to 35% odd and the remaining being held by the mobile operator.

Dheeresh Pathak: So why is it that the telcos, they keep 70%, is it because of the legacy reasons, industry reasons or why do you think they have a bigger bargaining power?

Hiren Gada: I think it is a combination of three, four different parts, I mean one is yes there is a legacy because in the ring back tone era, ringtone era the rev-shares to the operators had grown closer to 80%, it is now probably down to between 65% to 75%. Secondly, as Jai earlier alluded them controlling a larger wallet and third is of course the kind of infrastructure and customer ownership premium that you are looking at. So it is that combination. Having said that, as also Jai discussed earlier that the D2C, the direct-to-consumer offering is something that the telco has created where the rev-shares kind of more or less reverse in our favor. So we earn probably around 60-odd% kind of range, so that ecosystem has been created to do away with this because for him whatever is say default landing page is real-estate so it is a premium he is charging on that.

Dheeresh Pathak: So in m.shemaroo.com you would keep 70%?

Hiren Gada: Yes, 60% to 70%.

Dheeresh Pathak: And what percentage of acquisition cost are you ascribing to digital now?

Hiren Gada: So as per the policy we have it only, so either there is a direct attributable cost that has been negotiated among us, I mean between us and the producer or we do a 90:10 allocation at this point between traditional media and New Media.

Dheeresh Pathak: But now that by next year you would have more than 20% of revenues come from...?

Hiren Gada: Yes, so we review it in April of every year, I mean once the next year happens, so we are already right now in end of Jan, so in next two months we will be reviewing it. And yes, I mean given the rapid growth in the contribution of the New Media I think obviously it will go upwards.

Dheeresh Pathak: Will that have any impact on margins, for example how do you attribute it, more than 15% margins would have a slightly negative impact the way I am thinking about it, is that right?

Hiren Gada: No, why would that be the case. Even today 85% of the business is coming from the traditional media rate.



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Dheeresh Pathak: But if the cost, so for example the cost of the New Media would go up therefore the margins of the New Media would come down and correspondingly the traditional media, so one would have an offset impact then the cost of **(Inaudible) 53:46.3** would go down.

Hiren Gada: Yes, that is what I am saying.

Moderator: Thank you. Our next question is from the line of Urmil Shah from IDBI Capital. Please go ahead.

Urmil Shah: Sir my question was more on a long-term point of view, in a scenario where the subscription based OTT players gain market you still see a non-exclusivity being maintained in your business or there will be market for exclusive content as well? And if that happens, how would the pricing change?

Hiren Gada: So two or three things Urmil, I think one is that in fact a lot of the platforms today that are being launched they are launched on certain exclusivity basis, so if you look at say all the broadcasters have either already have their platforms or are in the process of launching their platforms, so all of them are now in a position where they are putting up their content exclusively on to that platform and nowhere else. So there is a certain amount of exclusivity that is already being created and I think the jury is out in terms of really which way the consumer will go and whether a single platform will be able to gain disproportionate market share or not. So having said that, I think the question for a non-exclusive model is really, see the consumer comes to a service for a general service, I mean why Netflix has worked so well is the fact that although it owns so much content non-exclusively, in fact the whole exclusive movement that Netflix has started is very-very recent, but otherwise all their major Hollywood studio tie-ups etc are virtually on a non-exclusive basis. But the fact that they are able to put together the largest bundle of content that is available that is really what is attracting the consumer when he is paying \$8.99 subscription to the platform, he knows that he has so many thousand films and thousands of hours of television content available on the platform. So I think the jury is still out, that is one. Secondly, if you look at international references, while Netflix has come in or say Hulu has come in or Amazon is doing many things or even say iTunes, YouTube, all of these are there. I think if you refer back, ultimately all of them the content that is driving them comes from the Hollywood studio ecosystem, so it is the Warners and Disneys of the world who are powering a lot of that content over there. So finally it is a good content then the consumer connects with, I think that is really what is of importance and where the consumption happens.

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

Yogesh Kirve: Sir regarding the miniplex which has been around for a couple of months, so how is it shaping up and do we plan to launch it across more platforms?



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Hiren Gada: So miniplex, as we had shared last time was born out of certain insights related to combination of subscription and telecast kind of a scenario that is currently prevailing. It is still in a rollout phase and probably I would imagine for the next two or maybe three quarters it would remain in that kind of a mode. Yes, there are more platform tie-ups for miniplex that are on the anvil. So one of the things in this, so we launched the service on 30th October in Airtel and 5th November on Tata Sky and on Airtel we had launched on a standard definition platform so almost within a short period of time we added the high definition offering to the Airtel platform. And it is now more platforms of course on the DTH side, but more importantly I think as we had discussed earlier the digital opportunity that service like miniplex has, so we are in different conversations across with different people to see how miniplex will get integrated either as a service or as a content itself. So there are two, three different ways in which we probably could do and there are a few conversations happening. So over a certain time we will see these integrations happening.

Yogesh Kirve: At least on the television side can you talk about the number of subscribers that we have as of now?

Hiren Gada: I am not at liberty to share numbers.

Yogesh Kirve: And finally, is there anything on the film production or distribution that is on the radar?

Hiren Gada: New film side, no nothing, last film was in FY15 it was released, FY16 at this point, I mean anyway it is just two months away, there is obviously nothing. Not only that, there is nothing on the floor at this point in time and so I doubt that we will see anything in the calendar year 2016.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Runit Dugar for closing comments.

Runit Dugar: Thank you to the management team for taking time out to do this conference call and thanks to all the participants. With this we conclude the conference call. Have a good day.

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