



“Shemaroo Entertainment Limited Q2 FY16 Earnings Conference Call”

November 04, 2015



MANAGEMENT: **MR. HIREN GADA –WHOLE-TIME DIRECTOR AND
CHIEF FINANCIAL OFFICER, SHEMAROO
ENTERTAINMENT LIMITED
MR. JAI MAROO – DIRECTOR AND NEW MEDIA HEAD,
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MODERATOR: **MR. KARAN TAURANI - DOLAT CAPITAL MARKET
PRIVATE LIMITED.**



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Moderator: Ladies and gentlemen good day and welcome to the Shemaroo Entertainment Limited Q2 FY16 Earnings Conference Call hosted by Dolat Capital Market Private Limited. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Taurani. Thank you and over to you sir.

Karan Taurani: Thank you, operator. Good Afternoon everyone, we at Dolat Capital are pleased to host Q2 FY16 Result Conference Call of Shemaroo Entertainment. The Management is represented by Mr. Hiren Gada –Whole-Time Director & CFO, and Mr. Jai Maroo – Director and 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 and welcome everyone to the Shemaroo Entertainment Q2 and H1 FY16 concall. Thank you for spending the time and being on the call. Like to really happily report the first-half performance of the company so I will first go on quarter two, so top-line is increased by 10.5% on a Y-o-Y basis to 94 crores. PAT had increased by 30.6% on Y-o-Y basis to 11.2 crores.

On the H1 numbers top-line has gone up by 14.8% to 172.2 crores and PAT has gone up by 26% to 22.87 crores and in terms of break-up of the traditional media and New Media I think happy to continue the momentum that we had achieved last quarter which was an 80 plus percent growth so we have grown the New Media business at 82.4% to 15.8 crores taking the first-half total to 29.2 crores which is almost an 83% it is 82.9% Y-o-Y growth so that is kind of happy to see that many of the initiative that we had taken over the last few years are now bearing out and getting in to the interesting broad band and various other initiative with a very strong momentum on the business front so that I think has been one of the key highlights for us. Now, to hear questions from you all end what else we can share with you out of this. Thank you very much. Karan?

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Vimal Gohil from Union KBC Mutual Fund. Please go ahead.

Vimal Gohil: Sir, my question was regarding investment in your content and pipeline for that? So if you just could give me some I would not want a formal guidance as such but if you just give me as such qualitative idea as to what is your investment in content pipeline looking like in the next one yes to two years so if you could just give me some idea regarding that?



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Hiren Gada: Sure, I think we are seeing good flow of content in the stage at which we come in which is typically in second-third or subsequent monetization cycle of a film. Typically we are seeing some interesting content flow in the market and we kind of taken up lot of this opportunity so like we have announced last quarter that we acquired the Red Chillies Library including the films like Main Hoon Na and Om Shanti Om, etc. So similarly we have acquired some marquee libraries including films like Ajab Prem Ki Ghazab Kahani et cetera, which have kind of will obviously help us boost the business over the next few years and we see a fairly good availability of content pipeline going forward and we will balance out for us the IRR 18% benchmark that we have maintained I think it is very important determining factor in terms of there is a deal we will be going ahead with that deal or not. So within that I think we are saying some interesting content pipeline availability.

Vimal Gohil: Sir, how much have you set the side if you could just give me some idea for how much you are going to invest in next one to two years?

Hiren Gada: Typically, if I want to put it in a different way since we see the tremendous opportunity we are in an investment mode and to that extend the idea is that there is a combination of operating cash flow and certain debt we have been given that we are currently still we have some room debt so combination of that. So both these things combined there are so if I were divided up in two ways. There is overall a gross addition which is my total acquisition and then there is a net addition which is how much we add net of what we consume because we also consume at the same time while we acquire. So if I want to put that I think over a two year period I think we would be looking at a net addition of anyway between 100 crores to 150 crores in toto.

Vimal Gohil: And sir, all this the entire 150 crores will directly go in to inventory, right in to the balance sheet?

Hiren Gada: Yes.

Vimal Gohil: Okay. So is it fair to look at your inventory to be your actual CAPEX rather than looking at traditional way, right?

Hiren Gada: Absolutely.

Vimal Gohil: Sir my second question actually revolves around your business modal. Sir please correct me if I am wrong, this is just a thought actually. If I have to look at the current trend, movies like Bajrangi Bhaijaan or and some other movies have taken very little time to come from theater to and now they are available on TV. In fact movies like Bajrangi Bhaijaan are also available on Hotstar now and we actually look at movies on second and third level as you said. So I would imagine that we will be directly competing with those kind of movies. So vis-à-vis our content which is slightly aged in nature and as compare to content which is slightly fresh what are over thoughts over there?



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Hiren Gada:

So two or three things I mean there is no doubt that a new film obviously has a certain spurt sale or spurt consumption when it releases. However if we look at the whole thing from business point of view commercially practically very difficult or next to impossible to determine the commercial value of a film on a pre-release basis because no one knows the fate of the film and therefore the risk is extremely high and which is the reason why we do not participate on a pre-release kind of a risk typically. Now once a film has completed five years to seven years of its first cycle it has settle down in a trajectory and that is when the commercial value can be determined with a much more accuracy that what was in a first cycle. Now whether the film connect with the audience in over that do not happen because film today we all consume film which are more than 30 years to 40 years - 50 years old film in fact that is one of the key premise of overall business that the fact is that unlike most other entertainment assets whether it is sports, news or reality shows, etc., who shelf life was typically less than 24 hours in some cases or may be a few weeks. Film is one content category who shelf life is substantial higher I mean today we for example from our library if I have to talk of few names you can probably identify with the fact that there is a certain amount of consummation. Is it going to be as much as Bajrangi Bhaijaan? Obviously not but the whole idea is that within that consumption am I able to estimate the economic value of it correctly monetize it well and generate my return within that framework so you know. If I have to say talk of a movie like Jab We Met, Golmaal, Golmaal Returns, even some of the older movies like Chupke Chupke, Anand, Golmaal or Amar Akbar Anthony some newer films which we talked about like Ajab Prem Ki Ghazab Kahani, Main Hoon Now these are films which of them have respective position and connect with the audience and irrespective of I mean these are films which we all know are time pervading I mean they will carry on and grow will they do as much as the next Bajrangi Bhaijaan or whichever big blockbuster the latest blockbuster obviously not. So I think that if you ask me is the premise on which the business has been overall looked at. So third point I will add over there is that through technology and penetration of infrastructure, the broadband, etc., and technology in terms of various hardware and all of that what is happening that we call a long tail of consumption and monetization that has been becoming fatter and fatter. So actually Library value has been increasing rather than decreasing that has been over experience over the last several years because earlier post theater there was no monetization for a film and therefore post theatrical value theater would contribute probably at some point may be 100% of the film life time revenue which is today down to probably whatever depending on estimate which probably between 40% and 60% of the life time business.

Moderator:

Thank you. The next question is from the line of Nitish Khatavkar from India Asia Fund. Please go ahead.

Nitish Khatavkar:

Three questions for you from P&L and balance sheet side, first is relating to the higher tax rate for the first half of the year as compared to 32% last year for the first-half this year it is 37.5% number one. Number two, would be the long term borrowings as of 30th September which has gone up to 27 crores as against 32 lakhs as of March? And third, would be regarding the trade



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payables which have also seen the three fold jump as of 30th September. So these are the three questions.

Hiren Gada: Okay so I will address your second and third one first. So regarding long term borrowing actually over the last two call we have been discussing how we been kind of we have revamped our whole borrowing thing so we had earlier some fixed-deposits and various kind of high cost borrowing and from which we now converted or gone into a mix of term loan and working capital with State Bank, Bank of India and one Cooperative bank so, these three primarily are the working capital bankers and State Bank is the term loan Banker. So the there is almost 200 basis points reduction in the overall cost of the fund. So this term loan this long term borrowing which you are seeing is basically that term loan part of that whole thing. Second to answer about trade payable; so this is basically a content which we would have acquired and which we would be paying off I mean whatever based on the payment schedule agreed upon with the various vendor. And third is taxation actually it is a console taxation so there would be some probably losses on some other subsidiary or these kind of kind of thing. So the standalone console difference would kind of change the tax rate figure apparently.

Nitish Khatavkar: But I was pertaining to the consolidated tax rate on 30th September, 2014 is was 32% and now it is gone up to around 37.5%?

Hiren Gada: Correct. So that is what I am saying as far as this quarter is concerned and when we consolidate we take profit and loss of subsidiaries and other associates into account and so while my standalone tax rate will be as per the corporate tax rate but because of the consolidation tax rate would change and particularly if I have a loss in my subsidiary.

Nitish Khatavkar: Sure. Sir, last question if I squeeze a bit. Regarding the debtor number of days so what is the current debtor days that we have?

Hiren Gada: So current debtor days is down to 127 days.

Nitish Khatavkar: Okay. And this is the normal going forward?

Hiren Gada: No, the normal is as I have earlier also said the normal is between around 180 days range. It has been coming down as a traditional media mix so the mix of business has been helping the debtor days come down even some of the deals that we are working on the traditional media side also are helping to reduce the this thing. In this particular quarter, if you see the top-line for the traditional media has been relatively flat and that has also been one of the reasons why the debtor days is looking kind of better optically than what we think it would normally be.

Nitish Khatavkar: So 180 is the normal that



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Hiren Gada: Considering the fact that see traditional media is now about close to 17% of the top-line so that number is probably now 160 to 180 range is better normal now earlier it was between 180 days to 200 days.

Moderator: Thank you. The next question is from the line of Sangeeta Purshottam from Cogito Advisors. Please go ahead.

Andre: This is Andre here. Just one follow-up clarification question between that going forward in terms of modeling what kind of tax rate should be take in terms of modeling tax that is question one? And the second question relates to your margin, I notice that your first-half margin is higher than your Q2 margin so that going down of margin which also have an increasing share of New Media. Now in the long term expect the New Media to actually have a higher margin than traditional media does this mean that we are still in investment mode in New Media? And could you give us some kind of indication as to how long this investment mode is likely to remain and what would its implication been on the margins between New Media and traditional media?

Hiren Gada: Sure, so firstly on tax side Andre, I think slightly higher than the normal corporate tax rate is what I think we would be looking at console basis considering that one of two are our subsidiary are still in an investment kind of a mode so at least as far as this financial year is concern I think we would definitely have a console tax slightly higher than the normal tax rate that is one. Secondly, regarding the New Media and the margin structure so in fact the New Media margin has actually gone up which the traditional media which margin has been slightly lower. So New Media given this kind of growth and the fact that there is an operating leverage has actually further expanded the margin structure its traditional media where the margin has been slightly on the lower side so that is the simple kind of an explanation to further answer your question in terms of are we still in an investment mode, yes we are still in an investment mode and for the next two years to two and half year roughly two and half year is what we expect that we will continue to be in an investment mode. Considering the strong growth that we are seeing you we definitely are looking I mean in a different way the hypothesis that we started with that this business will grow and therefore we need to invest I think that is kind of barring out very well from where we started and where we are today so and we still believe that the opportunities are you now still highly under tab ten over all the opportunity is to humongous in front of therefore we definitely will continue to remain in an investment mode for next two and half year.

Andre: And the lower margin from the traditional media business is just normal variation around the norm or is this?

Hiren Gada: Yeah, it is normal and over I hope to achieve in the full year I mean the overall margin structure for the full year will be better than I mean that is what we are hoping to achieve a better margin than last year.



Andre: Could you just explain about Miniplex your new product. Now if you are going to premier one new movie every week is this a new content, if it is new content then very fresh content in which case how to that reconcile with the fact that you usually deal with content such as five or seven year old?

Hiren Gada: So, typically as we have been discussing also while we the bulk of the business is for movies on which I think is second third or subsequent cycle what we have also discuss is that as far as the first cycle is concern we normally deal in some of the Ancillary Right it is not Theatrical or Overseas Rights but some of the Ancillary digital or Home Video and Slide kind of right. So typically we do deal with several films newer films throughout of the year so it is not that we are absolutely not dealing in new films. So what we are looking at what we saw what we are seeing as an opportunity actually is that, the fact is that outside of the top few films so if you take about anywhere between 30 films to 40 films in a year apart from that there is an whole lot of films which are the smaller films which actually do not get adequate exposure whether it is on theater, television or any of the other medium and the kind of saw that there is need gap over there which we are looking into fulfill through this service and it is kind of extension of the existing relationships or business that we are any way are transiting with them that sense just an incremental kind of an activity with the content really speaking. So none of these films are for example Bajrangi Bhaijaan or Drishyam kind of a film these are smaller films like Ankhon Dekhi and Revolver Rani and stuff like that and with that we work with so we have launch this on Airtel Digital Television and we worked with that team to create this survey kind of a thing.

Sangeeta Purshottam: Hireen, hi this is Sangeeta I had couple of questions, I mean is that on old media you said that you essentially look for 80% IRR on the portfolio basis. Is this pre-tax or post tax that you look at?

Hiren Gada: Pretax.

Sangeeta Purshottam: Pretax.

Hiren Gada: Yeah.

Sangeeta Purshottam: So that mean that on a post-tax basis are we seeing that if you say remove one-third of tax then IRR is about 12% and we are basically and that will be the rough ROE of that business?

Hiren Gada: Actually, mathematically what you are saying is not wrong but that is really not how we are looking at the think because there are other pretax cost I mean there is interest for an example. If my cost of financial is like say 20% and I am making an 18% IRR then obviously there is an essential average available to me kind of help takes the return in the equity higher.



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- Sangeeta Purshottam:** Right. So if we do not talk about ROE but we talk about ROCE which is independent of how you finance it are we saying that this business will upper limit of the ROC on this business is about 18%?
- Hiren Gada:** Yeah, I mean as far as our traditional thought process and working has been already on that basis of course what we are now seeing what we hope and expect over the next two to three years as digital media goes is the extra ordinary growth because a lot of that is not factored into my acquisition ROCE calculation.
- Sangeeta Purshottam:** Right. No, I understand that. So basically on the digital media so if an actually look at the two as a you separate businesses than one part of your business has a kind of fixed ROC of about 15% so that is 15% other business which is the New Media and upside can be anything depend on what you acquire and how you sell it, right there are no caps there in terms of what you are looking at?
- Hiren Gada:** Absolutely.
- Sangeeta Purshottam:** Okay. The other question that I had is that any reason why the traditional media growth has been somewhat soft both in the first quarter and second quarter is it just seasonal any specific reason?
- Hiren Gada:** Yeah, I mean to be honest quarter is not a good benchmark to look at this business a year is really the way to look at it and yes , I would attribute it to somewhat seasonality kind of a thing. We have as you can see from the balance sheet itself that there is a good content pipeline in place and overall we see that this business at an annual level, at an industry level is roughly 12 odd percent growth business and we should be at least in line if not better is what we will hope to achieve.
- Sangeeta Purshottam:** Right. So basically over the long term if we take a slightly longer horizon of two years to three year we can model that at about 12% growth year-on-year?
- Hiren Gada:** For this business yes, so if you see the industry projection for the traditional media they are in this range of some 12 depending or some depending on whose projection you take there are in the range of 12% to 14% kind of a thing.
- Sangeeta Purshottam:** Right, okay. And the net investment that you talked about in inventory which is roughly 100 crores to 150 crores this you will be financing primarily from internal accruals than in debt.
- Hiren Gada:** Yes.
- Moderator:** Thank you. The next question is from the line of Sachit Khara from Smart Equity. Please go ahead.



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Sachit Khera: Sir, there is one quick data point can you share with me the Perpetual and the Limited Rights title count on 31st March as well as 30th September?

Hiren Gada: Sir, we made a practice that we would be will sharing it once in a year, it is there in annual report I can email it to you across.

Sachit Khera: All right no worries. Actually, I will just quickly tell you the reason why I am asking the same. The presentation says that your title count is still at around 3,000 odd numbers and I was just looking at your half yearly balance sheet and this look like it that the inventory numbers has gone up by let say Rs.100 crores. So while I understand that obviously the cost of acquisition per title should have ideally gone up but it is like 50% net inventory increase and the title number is effectively the same as per the presentation. I just wanted some clarity around that?

Hiren Gada: Sure, I think two things that we have looked at and we have discussed it even on earlier calls is that really what is more important going forward is and particularly in digital ecosystem you know given the way the digital eco system is targeting to at least at this point to certain age group and certain type of customers in terms of socioeconomic kind of a thing we have been looking at content mix which is far more I would say contemporary in terms of acquisition the focus has been like some of name which I have mentioned are big titles which earlier probably we may not have looked at in exactly in that sense so if you have create the overall strategy to make it more friendly for other digital media basically. And as a result there are some titles which are highly premium titles so in fact if you ask me as a thought process more than quantity and quantity many time is slight misnomer I once you reach the certain volume and scale whether you have 3,000 or 4,000 really does not matter more about matter is now is how do I have that set of market titles which today easily I can say that virtually no one can run a meaningful Bollywood services without some content from Shemaroo I mean once you reach that position you are in an extremely strong place in the market. And I think that is been the key focus and as a focus I will just add is in terms of breadth of the Rights. So typically earlier we might have limited rights for limited period now we have been expending that also so the additional investment is actually going in to really built the what I would say is the future ready library in that sense.

Sachit Khera: Okay. So if I understand correctly the reason for the increase in inventory is two-fold. First is you acquire more marquee title so the average cost of the acquisition for tile has jumped up because of that and the second is because of market breadth of title earlier let say you were acquiring the traditional media right now you are acquiring the digital right and other some Ancillary Rights, if I understand it correctly?

Hiren Gada: Correct. A well as the period that is the other thing in some case earlier we might have acquired 5 year rights now in many cases we are looking at 10 years rights.



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Sachit Khera:

Okay. Perfect, great sir I mean considering this and considering the fact that although in absolute terms your quantum has not really increased but you have acquired more and more premium titles. Does that sort of increase sort of your **(Inaudible-32.25)** position and hence allows you a higher ability to retain your margin as well as probably increase them even in the tradition media business or do you still expect the ROE to remain capped at the 12% post tax level?

Hiren Gada:

I mean that is a very good point and that is really what we are working towards although we have not factored that into our acquisition. My current ROI and acquisition cost for the purpose of ROI calculation my recovery revenues are kind of capped on a little more conservative basis we have not factored in the possible additional bargaining position that we may actually be in because we have got certain really marquee title.

Sachit Khera:

My next question is actually around your New Media business now this is a more broad question. As we can see the number of platforms on which this digital content is being displayed and increasing lot more. Earlier you had a very strong position to acquire five years to seven years old film rights from individual producers those people who really did not need them anymore because they could not monetize it and you aggregated it and you sold it off. Now considering that all the new platforms have come does it sort of become more difficult to convince more and more producers to sell their content to you or who does it work?

Hiren Gada:

So I will hand this to Jai who will answer this question. He handles the digital media business.

Jai Maroo:

Actually, no we do not particularly see that is the case, it is actually the contrary. So actually what is happening with the increasing product creation of these platforms is actually that the complexity is increasing. Even earlier we have talked about the fact that there is such a vast variety in terms of platforms in the way you monetize if we take something as simple as delivery complexity. To deliver a single video clip on all the various mobile platforms requires actually to 27 separate deliveries because each of the various product has their own format Airtel Rs. 1 video store is different from Airtel Live is different from Reliance Rs. 1 store and so on, right so there are lot of complexity there. Even in terms of quality so in iTunes, HD delivery is very different from what you will deliver on some other platform because there is download experience versus streaming and so on. So the complexity of these and this is just delivery complexity similarly in terms of how to deal with these platforms so each platform has its own nuances in terms of how do you market, how do you increase consumption. The behavior on iTunes is extremely different from behavior on YouTube and so understanding each platform strengths, understanding how to work on those platform to maximize consumption, and how to window the content across the platforms to maximize monetization this is all something that works better for us with scale and may not work well for an individual producer who may have 10- titles 20 titles -40 titles but for us who has couple of thousands titles it is obviously I have a focus team that consistently evaluating and improving that.



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- Sachit Khera:** Perfect. My very last question again it is a small data point. In your New Media business would it be possible to give a rough estimate of how much it is coming from YouTube?
- Hiren Gada:** Right now we are not giving that data but all we can say right now is that YouTube is the largest contributor but it is much less than 50%.
- Moderator:** Thank you. The next question is from the line of Mr. Karan Taurani. Please go ahead.
- Karan Taurani:** Sir, just one question in terms of debtor days you said that traditional media debtor days would fall going ahead how exactly would that happen, could you explain that?
- Hiren Gada:** Yeah, what we are doing fundamentally there is a market practice so it cannot fall below of certain level but as we are trying to do in terms of deals that we are negotiating is a better payment schedule with some of the customers. So we are hoping that we should be able to bring that down. But the debtor days' reduction really would be achieved as the business mix grows much more in favor of the New Media.
- Karan Taurani:** Okay, so what range would this stabilize at in terms of only traditional media if you see debtor days.
- Hiren Gada:** Only traditional media we are still much far away from there but we hope to bring it to about 150 days to 160 days.
- Karan Taurani:** Okay. And this should be what time horizon?
- Hiren Gada:** Over the time it will take more couple of years actually because this is a market practice so obviously many things we have to work within that.
- Karan Taurani:** Okay, in terms of New Media I think last two quarters growth this quarter and last quarter (+80%) Y-o-Y and Q3 I believe be seasonally strong so you had guided about the 50% growth in the New Media for FY16. So you are going to revise your guidance upwards or something because of first two quarter being very strong?
- Jai Maroo:** I would like to clarify first that we did not give guidance but yeah, I mean what we had shared was where we saw the business growing so obviously I think that 50 % to 60% is now no more valid with the kind of momentum that we are seeing. I think base of minimum 60 % to 70% is what we should be in fact we will try to do better than 70% I think 60% to 70% is something that defiantly we would hope for.
- Karan Taurani:** So that is for this year but on the sustainable basis in FY17-FY18 what kind of rates? I mean roughly I am not asking for guidance but just a rough number if you can give me on that.



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Jai Maroo:

There are two ways - three ways to look at it I mean one is where the industry is headed. So if you see the current projection you know all are in the range of 30% to 35% one may have talked of 40% kind of number. These are the rough industry projections typically. Obviously we would grow we would grow faster than that so that is one way looking at the whole thing. Other is what happen once the broadband infrastructure is better in place so we feel that somewhere overall orbit shifting trajectory will come in for the industry. We do not know when it will be, whether 12 months down the line, 24 months down the line, 18 months down the line. It is very difficult right now to actually kind of see. But we think the overall growth of the industry in a two years or three years period to minimum of like, at an industry which is like 30 to 40, it would probably go up to minimum of 60% to 70% overall for a two years or three years' kind of period. Really, I think that is a very important event that I guess all of us are playing for and we hope to really capitalize strongly on that kind of event happening.

Moderator:

Thank you. We have a follow-up question from the line of Andre and Sangeeta Purshottam from Cogito Advisors. Please go ahead.

Andre:

Yeah. This is Andre actually just address to both of you. See, basically we are seeing growth in New Media. Now, when we actually think about it and at the same time some of the traditional ways of consuming media which was like through DVDs, etc., is actually degrowing. Would it be fair to say that part of the New Media growth is coming because people are consuming more media and part of it is actually a shift from traditional media to New Media? And therefore in some ways is it the cannibalization?

Hiren Gada:

There is definitely a certain migration happening from traditional to new. And particularly when we say traditional, right now what we are seeing is more from physical media to the digital media. And actually if you see logically, this is a next extension of the personal video or home video business. I mean what started probably with video cassettes, VCDs, DVDs, Blue Rays, etc. Now the virtual delivery of the content instead of a physical media delivering is obviously a next step in that. And within that what I would just say is that yes, there is a certain amount of migration happening. But now what we are seeing in terms of this year, penetration of hardware a) and b) So first if we just talk about hardware penetration. DVD players probably I did speak hardware penetration was probably in the range of about 5 million to maybe 10 million kind of phones. What we are seeing now as far as a digital media is concerned; already we have kind of crossed that penetration, so we are into more hands. And that is the other difference. Instead of being a whole thing we are now in a hand thing. So, the fact that it is a personal entertainment device mobile phone or PC or connected television or any of these is a much more personal entertainment device than a DVD. Therefore, the kind of consumption pattern that you are able to see, I mean for a DVD you needed to have media, you needed to switch on this thing. There is a whole process to go through and what you typically could see was limited content that was published by people like us or other labels. Here you have whole wide range of media accessible on your fingertip anytime you want. If I am for example travelling, I cannot hear DVD player at that time but I can consume content on mobile



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or tablet or stuff like that. So I think that, if you ask me is a fundamental shift. With the kind of numbers we are today having. This business is already above what probably DVD was at its peak or will be above a DVD was at its peak. You have got the right point, right?

Sangeeta Purshottam: Right. So basically what you are saying is that a large part of it is actually fresh consumption or increased consumption, is that a fair takeaway?

Hiren Gada: Yeah, absolutely.

Jai Maroo: Yeah, absolutely. I mean, definitely some of that consumption was a shift from the physical media but a lot of that consumption is the increase in penetration, increase in time spent just from the point of view of easier availability, like the example Hiren gave of on a commute the flexibility that digital gives us to enable consumption during such windows in terms of contact format as well. So for example, one of our very successful channels on YouTube is Filmi Gaane which is all around song video. It is the number one Retro Bollywood song destination on YouTube. Now, that was much more limited in terms of what you could do when physical media had its limitations but with digital you have got a lot more flexibility with what you can do on that. So definitely a lot of it is more or fresher consumption beyond just a shift from physical.

Sangeeta Purshottam: Right. And in terms of what your revenue model, see in traditional media your revenue model in some ways is essentially like a cost plus. In New Media, it is a lot more advertising and product sale driven, could that be a fair way to put it?

Jai Maroo: It is so, yes, I mean it is a combination off course. YouTube kind of a thing is more of what we call 'A' word advertising VOD. And then there are both, there is a 'T' word transaction VOD on platform like iTunes or Google Play, etc., or even mobile for that matter the VAS platform is one of that. And then there is a third thing which is 'S' word which is subscription BOD. Platform like Netflix for example or **Hook** which we have tied up with or even within the mobile ecosystem, there are some month packs and things like that, which give you a month long subscription access to some of the content. So I mean in that sense as a revenue model, the difference between that particularly if I compare with the physical DVD, it was just a pure play sale distribution kind of a business. Here all these three models and I will add a fourth layer over here is that in many cases for us it is a B2B to B2C kind of a thing so **Hook** for example, so we have license content to **Hook 47.49** is running the service that way.

Sangeeta Purshottam: Right, okay. And what are your working capital terms overall, it is about 180 days in traditional media which we hope to bring it down to about 150 over a two year period, New Media typically how long does it take you get your money?

Hiren Gada: Typically, it is in the range of between 60 days and 90 days with the mobile being on the higher end of the range and the other being on the lower end of the day.



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- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** I want to know, what percent of revenue comes from top 10% of your titles?
- Hiren Gada:** Top 10% of the titles?
- Dheeresh Pathak:** Yes. For example, if I might have heard right it is 3,000 odd titles. So you know top 10% title, how much do they contribute to the revenue?
- Hiren Gada:** Top 10% of the title would be upwards of 50%. I mean a typical 80-20 rule would apply. So 10% will be even more concentrated I guess.
- Dheeresh Pathak:** Okay. And as I see, you have some 390 crores in inventory. Now, what percent of this would come up for renewal in the next two years let us say?
- Hiren Gada:** So there is a lot of it have been freshly added or renewed, so in that sense if I have to put a percentage of renewal over here, it would be relatively lower.
- Dheeresh Pathak:** What would be the weighted average duration of this content which you are sitting on the books as inventory?
- Hiren Gada:** Very tough to answer. But I will just attempt to give you a picture in a slightly different way. So a lot of the acquisitions which has happened in say the last 18 months, obviously recently renewed stuff and we have been moving towards the longer period kind of acquisition in many cases. So if I have to put a weighted average on value terms probably I think I do not know actually it is very-very tough because very difficult to go title wise.
- Dheeresh Pathak:** I can get in touch with you and....
- Hiren Gada:** Yes, probably we could discuss it and even we need to figure it out. Actually we do not look it at that way to be honest.
- Dheeresh Pathak:** The other think I wanted to know on the like-to-like basis for an example of a title which based on the medium, the geography and the time duration of the title you had it, it was coming up for an expiry and you renewed it. Now on renewal assuming everything else is like-to-like what is the inflation that you are seeing on renewal?
- Hiren Gada:** Typically, and this is a circular trend we have seen over last about 20 years in fact the inflation is in the range of 15% per annum.
- Dheeresh Pathak:** 15% per annum?



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- Hiren Gada:** Yes.
- Dheeresh Pathak:** Okay. And is it like earlier you said in the first cycle you might look at some of the marginal move?
- Hiren Gada:** Dheeresh, just to therefore complete that point since we acquire five year rights if we have acquired or sold I mean either way is the similar number of applies. If we sold a title for Rs.100 in this cycle or the last cycle, this cycle of five year's next cycle would be anywhere between 180 to 220 typically.
- Dheeresh Pathak:** No, sorry repeat that again for let say...
- Hiren Gada:** As I said 15% per annum what does it mean that we acquire five year rights, right? So if you kind of just annualize it or do a five year thing the number would be almost 100% cycle-to-cycle of five years
- Dheeresh Pathak:** Okay, so roughly like 20% then per annum?
- Hiren Gada:** 20% is simple but 15% compounded kind of thing.
- Dheeresh Pathak:** Okay. And earlier you were saying in first monetization cycle you might look at certain title which are not bigger high impact movies but smaller marginal movies. Now typically as a trend do you see that TV or cable rights are being sold together with digital rights now, the digital is picking up so are they being sold together or they still being sold separately?
- Hiren Gada:** Sir, deal-to-deal it is varying. We typically look to buy bundle as much as possible and there is no fixed trend I mean for these kind of movies many times what happens is that the producer is not in a very much of bargaining position.
- Dheeresh Pathak:** Yes, no but going for do you think it is possible that it will not be possible to sort of it will be possible but it will be not that economical to separate the two. For example if the movie is available as Video on Demand then cable guys might not be willing to pay too much for it so the increase in the rights on the digital side would lead to commensurate decrease in the rights on the cable side?
- Hiren Gada:** If you see internationally also still traditional media or the television medium is holding on strongly even as of last year I means there was lot of noise around cost cutting but when you see the numbers typically or even if you go through the last report of Mary Meeker on internet compensation trend the time spent on television is actually has held on reasonably even in a market like USA which is full broadband and full penetrated in market internal devices, etc. So I think we are still at a very early and nascent stage there will be a tipping point even U.S. probably will go through when digital will kind of tip over television. I think we are still a long way away from there because the penetration of broadband infrastructure itself is very low. In



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fact in India still the television penetration itself is low I mean if you see we still proudly have a less than 80% probably around 75% household penetration of television.

Dheeresh Pathak: That is well taken. What I wanted to know was what is the trend that you are seeing? For example let say a movie which you could have sold to a television channel at a particular x amount given the fact that they knew that it is not gone be shown anywhere on net. Now that they know that it is available somewhere available on the net, how much lower would they pay or the cable rights to you and what is that you are seeing on the ground right now?

Hiren Gada: No, we are not in fact seeing any such impact as of now rather it is reverse because finally for our broadcaster what is important is more in terms of what is his revenue from ads and subscription. So ad spend continues to grow at a certain pace and which gets translated to the broadcaster typically. So that that impact is not at all visible we have seen content prices actually on the rise over the last I mean the trend has not been changed at all.

Dheeresh Pathak: It seems logical right, for example a Star would not pay so much for a Bajrangi Bhaijaan, if they know that it is also on Netflix let us say somewhere down the line?

Hiren Gada: So there are two things about it. One is that, irrespective of whether it is available officially or not and unofficially the movie is available even on the dates released theatrically. Correct?

Dheeresh Pathak: We all know that quality is not there, right?

Hiren Gada: Yes. But over a period, better quality prints also come up on the illegal sites. Now, still there is a legitimate business to be captured. Similarly, and that is really the argument I mean, why you go to theatre and why people still see movies in theatre and why these 200 crores and 100 crores movies collections are there. So that is one part of the point. Now similarly, the day the movie premiered on television or anything. It kind of was already available on some other media, but still television being such a wide and mass and cheap medium to consume. There is a certain viewership, a certain economics of that medium. And currently, at least those economics are on the rise and rather they continue to be on the rise as they have been over last several years. And that is the reason why ultimately that is what is driving the pricing and revenue for that media. And one more addition, I will add over there, see we are in digital media now and in fact just referring to the earlier question from Sangeeta and Andre that there was a time when the home video or DVD or the movie would be out. And that typically would be out before the Word Television Premier. Still, the Word Television Premier would find its own the audience so these are in many cases if you see the different modes of consumption and things like that.

Dheeresh Pathak: Right. I have one more question, I just wanted to know that there certainly these channels on TV which show music for example, Zoom or Sony Channel. Are those rights sold separately or they are part of the television rights, can you just explain those rights?



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Hiren Gada: Yes. So typically the music video rights are typically sold separately, apart from the films. So however, when we are acquiring and I will just give an industry trade practice that prior to 2000, producers were retaining the music video rights and post-2000 music companies I mean, music labels are retaining the music video rights. And so any of the acquisitions that we do, which are over for movies which is prior to 2000, we kind of acquire the music video rights on the producer along with that. So we however, unbundle it and sale it separately, so many of the channels they license it from us.

Dheeresh Pathak: Okay. But post 2000, the T-Series and the others have those rights.

Hiren Gada: Yes.

Dheeresh Pathak: In your YouTube channel, do you have a lot of post-2000...

Hiren Gada: No. We do not have rights. So I mean, whatever is there are some films where we have those rights, we would have put it up. But the positioning for our Filmi Gaane channel, actually that it is a Retro Bollywood destination. So which by definition is like in fact, pre-1990 most cases.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Hiren Gada: Yes. Thank you everyone, for having been patiently listening to this con-call and hope to see you next quarter. Thank you very much.

Moderator: Ladies and gentlemen, on behalf of Dolat Capital Market, that concludes this conference. Thank you for joining us and you may now disconnect your lines.