



“Shemaroo Entertainment Limited Q2 FY2018
Earnings Conference Call”

December 14, 2017



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Moderator: Good day and a welcome to the Shemaroo Entertainment's Q2 FY2018 Earnings Conference Call hosted by Batlivala and Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Yogesh Kirve from Batlivala & Karani Securities. Thank you and over to you Sir!

Yogesh Kirve: Thank you Janice. Good afternoon to all participants and thank you for joining in. We at Batlivala & Karani Securities are pleased to host this call for Shemaroo Entertainment. To discuss the results and the outlook we have the Senior Management of the Company represented by Mr. Hiren Gada, Whole Time Director & Chief Financial Officer, and Mr. Jai Maroo, Director and Head of New Media Business. I will now hand over the call to Mr. Gada for opening remarks, which would be followed by a Q&A session. Over to you Sir!

Hiren Gada: Thank you Yogesh and good afternoon everyone and welcome to the Shemaroo Entertainment Q2 FY2018 Earnings call. Thank you very much for having spent time in stopping by and listening to us.

I am happy to announce the results for the quarter ended September 2017. On a consolidated basis, September quarter revenues have gone up by 18.2% to 136 Crores. EBITDA has gone up by 13.4% to 36.3 Crores, EBITDA margin has been about 100-basis points lower at 26.97%. The profit after tax has grown by 23.8% to 18.7 Crores and the PAT margin has grown by 63-basis points to 13.89%.

On a half-year basis, the total revenue has grown by 13.6% to 238 Crores. EBITDA has grown by 13.3% to 70.6 Crores and PAT has grown by 18.1% to 34.6 Crores. Since we have been in the past giving the revenue breakup in terms of traditional media and digital media so the digital media revenue has grown by 42.5% to 34.2 Crores, traditional media by a 11.8% to 100 Crores. This is for the quarter and for the half-year ended September 2017, the digital media has overall grown by 42.2% to 62 Crores and the traditional media by 5.9% to 175.3 Crores giving a total topline of 238 Crores for the half-year ended September 2017.

Overall, if we were to look at it for the traditional media, we have discussed in the past that post the demonetization, we had a bad March quarter, which were the topline had degrown, June we kind of recovered to flat terrain and for this September quarter the topline has grown by 11.8%. That is a positive. New media trajectory continues to be at roughly 40% and 45% that we have been clocking for last few quarters and on the other front, we have announced few deals so we have signed a content deal with Etisalat, we continue to license the Lalbaugcha Raja live feed content and licensed it for multiple platforms and distributed our multiple platforms.



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On YouTube our ShemarooENT channel has now accumulated 2 billion cumulative views. FilmiGaane our other YouTube channel has crossed 5 million subscribers. Overall, on YouTube in terms of the views, which we have also been reporting, we have crossed 400 million monthly views in September, On a daily basis it is kind of at least 30 million views. So post the Jio launch and the other 4G rollouts are lower pricing and combination of lower pricing and rollouts, we have the strong uptick of video consumption kind of continues into this quarter so that is something that we have been looking at.

Of course the caution over here on YouTube particularly is that the brand caution that we had earlier given, it continued in this quarter also since some brands have pulled out their advertising from YouTube and due to certain ads being shown with hateful and offensive content the YouTube has implemented stricter brand safety guidelines and certain videos have therefore stopped monetizing. So that kind of continues.

One additional thing our FilmiGaaneAntakshar actually won as an international accolade, which is we won the CMO Asia's Social Media and Digital Excellence Award at Singapore for the "Best Use of Twitter" for a digital campaign on Twitter. So that was a very proud movement for us.

That is the opening update from my side. I would like to hear more questions or we willing to discuss questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Congratulations for good set of numbers. I have few questions on your gross margin and as well as EBITDA margin which followed up. So what was the key reason for decline in our gross margin?

Hiren Gada: There are two, I would put it in two different ways, one is definitely certain costs have been kind of recognized or which have come up in this quarter. Overall, if you remember in the past discussions also that we have been saying that at this point we are not really betting on our margin expansion and along with that there if you see on the other expenses also for example the people cost have gone up significantly, so that is definitely been one of the contributors to the margin coming down and on the other hand there have been certain other expenses, which have been recognized on the direct cost side.

Pragya Vishwakarma: Are these direct costs pertaining to higher as we move towards higher trajectory on new media so this is the kind of trend we should expect in future as well?

Hiren Gada: Overall, what we have been saying is that at EBITDA level the margin structure should be in by 25%, 27% kind of a range and that is really where we have been I think it will be slightly higher



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slightly lower but overall the target is to and the effort for us has been and will remain to maintain margins in that trajectory.

Pragya Vishwakarma: Is it possible for you to define gross margins in the two segments for traditional media and new media?

Hiren Gada: That is a challenge because there is a lot of historically hosted content, so when we look at revenue, how do we cost out so we may do something internally but I am not too sure that it would be acceptable by too many people so which is the reason why we have been resisting or not been able to give that.

Pragya Vishwakarma: What actually I was trying to understand is that as you have new media proportion growth will you see some kind of pressure on your margins so that was the entire motive of this and also when do we start seeing your employee cost getting stabilized or getting moderated because of quarter-on-quarter basis it has been going up?

Hiren Gada: Two questions that you asked. One is on the new media, so inherently there is a certain operating leverage actually available in new media, which also goes back to the fact that we have built up the library and there is a certain operating leverage, certain historically hosted content that is available. On the other hand, definitely certain new acquisitions would be at the current prices and therefore would reflect higher cost of that and which is the reason why given we have balance out both these factors the target would be at an overall company level to maintain the margins at least around these levels and that is something that we have been discussing for last two or three quarters on this. The second was on employee costs. We have actually broad based the management significantly and have added to the team. My own sense is that we are probably about two to three quarters away from the overall employee cost kind of going into a normal COG.

Pragya Vishwakarma: My next question was on balance sheet front so there is considerable decline in your debtors so what is the outlook for the full year and how do you explain that like I was just trying to understand what has led to this sharp correction in your debtors?

Hiren Gada: It is something that we have been saying in the past also and which I still maintain is that basically debtor days for traditional media continue to be in the 180 to 200 days. New media continues to be in the roughly about 90 odd days so fundamentally there is no change on that on ground. What has happened because balance sheet is on a particular date so if we have certain payment schedules which are predated to that we have get in that cash flow and are able to or the debtor day number comes down, but in general if you look at it the debtors number has been a bit volatile in the last few quarters. So I would still look at is this debtor reduction that we are seeing here I would not look at it as a permanent win, the inherent debtor days remain continue to remain where we are, but what will happen as new media as a percentage growth if the weighted average will keep coming down.



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Pragya Vishwakarma: So from a longer-term perspective when this proportion of new media is considerable with our revenue share so what kind of number of days you kind of expect?

Hiren Gada: Roughly if we do the math right now we are at 25:75 new media and traditional media and as we grow further if you do the math, I think you will kind of get the answer because 180 to 200 days is for traditional media and average of about 90 days is for new media.

Pragya Vishwakarma: My last question is on inventories so I think we have added around 60 Cores in the first half but as per your previous guidance we should be closing the year flattish or maybe marginally higher. So that remains intact as of now?

Hiren Gada: Absolutely. Basically we had shared it in the last quarter's call also that a lot of the inventory addition for this year definitely was front-ended as far as the year is concerned. So as the year kind of further goes overall we would be looking at a number, which is definitely near March 2017.

Pragya Vishwakarma: Sir just last question and it is like in our previous discussion we had this coming up where you kind of explain how you at times are to pre-book the content and the broadcasters also kind of purchase it for the future date so what I wanted to understand is when you book a content for 2018, which you will be buying from the producer do you have to make the payment now or when do you make the payment?

Hiren Gada: Payment happens now only it is in the next three to six months. I mean normally it is three to six months from the date of signing the agreement with the producer.

Pragya Vishwakarma: When a broadcaster is buying the content right now from you but you will be executing it maybe next year or in some future time period so how does the revenue recognition happen then?

Hiren Gada: Basically we have a process when there are three different conditions one they are fulfilled we invoice to the broadcasters so that is when the revenue is booked. So we book 100% of the revenue at that point in time and then from that point onwards the receivable from the broadcaster comes in to us in roughly about 180 to 200 days on an average so it comes in over a year period but the average would work out somewhere between 180 and 200 days.

Pragya Vishwakarma: So but that time period can be well ahead of the contract date when the movie will change hands from you to the broadcaster?

Hiren Gada: In most cases we get 100% of the payment well in advance of the broadcasters own rights commencing.

Pragya Vishwakarma: Thank you so much. That was very helpful. Thank you.



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Moderator: Thank you. We take the next question from the line of Dhiraj Dave from Samved Financial. Please go ahead.

Dhiraj Dave: Good afternoon and congratulation on good set of numbers. Sir can you just give us some colour on what kind of acquisition we have done during this first half basically is it Hindi or and what kind of digital?

Hiren Gada: Acquisition?

Dhiraj Dave: Yes the content acquisition?

Hiren Gada: It has been a combination of certain regional content, certain content for our devotional category and yes definitely we have done in Hindi in fact we have done some renewal deals also and on the Hindi front.

Dhiraj Dave: The second part of question would be more on like we may have certain contents let us say for example Mughal E Azam and that is a 1960s kind of release and the 60 years let us assuming that is a 1960s kind of right 60 year would get over by 2020. So in that case how you intent to basically coloring or what kind of additional feature you intend to do so that you can have edge over the whatever other content available like what is your thought on those kind of challenges because very soon 70s content also five, seven years down the line would be coming for loosing the copyrights so how Shemaroo see that as a challenge and how you will secure business?

Hiren Gada: 70s is still 13 to 14 years away. Currently the content that goes in currently is in to public domain is basically films, which have been made prior to 1957. So 1956 is really the cut off at this point in time and from January it will be come 57 so any films that is made prior to that will be in public domain. In terms of value add can happen in terms of colorization or colorization is really the only value add that normally can happen because otherwise it is a same volume.

Dhiraj Dave: Yes so remaining two colorization you will get 60 years right?

Hiren Gada: No. Yes so the color version you can get 60 years right on the time of release of that.

Dhiraj Dave: Yes that may become one feature HD or something but again black & white HD would not make a difference.

Hiren Gada: Yes so HD and all does not really change the nature of the work in any ways. It is just a better resolution capturing of that.

Dhiraj Dave: Thirdly and last question from my side. You have been in last conference call suggesting that we would be looking at the normalization of advertisement expenditure particularly for broadcaster. At least the numbers suggest again we resume to the normal growth but that being the case one



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part and second on digital you were suggesting that generally you observe the lag around six to twelve month lag between what advertisement budgets are and what growth we are shaping. So how do you see the two what is your view now, basically if you see normalcy in that?

Hiren Gada: Advertising revenue from what we understand is that even September quarter has been a bit tepid overall at an industry level on the television front so it has been probably just about single-digit growth rate on the advertising revenue front on television although from what we hear from all our various broadcast partners is that the season which is the Diwali period onwards has actually been very strong in terms of the ad sales etc., that they have been booking and it was an anticipation of that that at least their investment etc., activities kind of restarted in this September quarter and we saw the 11.8% jump in our topline in that period. On the digital front so the digital if you see the industry reports the growth has been at roughly about 30% and that overall we think is a trend, which has been forecasted and based on our conversation at various platforms looks like at least that seems to be the direction in which things are headed now translation of so specifically of YouTube views to a revenue that still I would say has not yet happened. We expect and hope that it should take place in the next couple of quarters.

Dhiraj Dave: So then despite YouTube it is not giving us great kind of financial jump, we see this 42% jump in digital media so that means other revenues have would have contributed right?

Hiren Gada: Yes so in a sense this growth overall in that digital media, there in this if you look at the last two to three quarters, there have been multiple different platforms that have come up, many service have gotten launched, and many have ramped up so it is a combination of many of these things that ultimately has helped us maintain certain growth rate although I would add that if YouTube actually does not happen then there is because while YouTube has not yet fired the other rest of the ecosystem has at least contributed. So if YouTube does not contribute for the next two quarters, we could definitely 42% growth would come down marginally.

Dhiraj Dave: Thanks a lot and wish you all the best.

Moderator: Thank you. We take the next question from the line of Hiral Desai from Anived PMS. Please go ahead.

Hiral Desai: I had a few questions one was wanted to understand this gross margin a bit better because if I look at the sequential number it has actually come up by about 10% points and in the earlier question you mentioned that there have been some direct operational costs, which have been sort of booked in the quarter. So if you could elaborate a bit on that. No I am still not able to tie-up the sort of 10% points win the gross margin?

Hiren Gada: There are couple of things that some of our service rollouts, which have happened in the last six to eight months they were in a more, I would say near launch or ramp up so therefore the cost over there was definitely on the higher side comparatively and compared to the revenues, which



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were generated on those services and that is one of the factors and other is in terms of this thing other is definitely the certain content cost associated with the sales that we have booked, the revenue we have booked has been on a slightly higher side so it is both combination which is I said there are some direct cost implications.

Hiral Desai: The second question was if I look at the subsidiary revenues this quarter, it is showing about 7.6 Crores now that is higher than what we did in the entire year last year. So what is driving this growth and is this sustainable and the profitability on the subsidiary portfolio?

Hiren Gada: On the subsidiary front, I would say at a portfolio level, I would think that there would be a certain nominal growth on that. In terms of I will tell you one of the subsidiaries is the business which is involved in the airline distribution and so that business has been ramping up reasonably well and the path to profitability over there is still some time away although the margins have improved drastically.

Hiral Desai: No but like what is the sustainable number, I mean, both in terms of revenues for the full year and if you could indicate maybe EBITDA margins or something like that?

Hiren Gada: It is difficult for me to forecast.

Hiral Desai: I understand but more broad guidance will help.

Hiren Gada: One thing I would say that our runrate has continuously been on an upswing on that business and we have managed to in fact penetrate exceedingly well considering the fact this is a business which is less than three years old, it is penetrated exceedingly well. We are distributing in probably about 70 odd airlines now so all the major airlines in fact every airline that does any India routes and India content therefore we would be having something or the other going with them so we still feel that there is definitely a certain scope more on this business and therefore the path to profitability should emerge, I mean, I am difficult to put a timeline but there is definitely a path to profitability otherwise we would not have invested in it.

Moderator: Thank you. Next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: Thanks for taking the question. I have a slightly longer-term question. If I am looking at how our business has changed from FY2014 to now, if I just look at our inventory it has moved up from about 146 Crores to about 500 Crores from FY2013 to I am talking about the March 2017 number, 500 Crores. At the same time, the number of right has really gone up from 2821 to 3585. So there has been a 27% increase in the number of right, but the inventory cost associated with that is up from to 40%. If I calculate a metrics, which is the average cost per right that would have gone up from 5 lakhs to 14 lakhs or if I look at the metric in a slightly different way if I see on an incremental basis from FY2013, we have added about 764 right at a total cost of some 354 Crores of the inventory. So the average on the incremental basis is something at 45 lakhs per



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right. Now I understand this is not something it is not a gross number this is the net number but I am still to understand that the cost of acquisition for us seeming to going up and going up quite significantly. If you can just shed any light on this in terms of why this trend is happening and are we bidding for either newer movies or the longer rights or any kind of clarity would be helpful?

Hiren Gada: Yes sure. Actually the large part of the question itself has the answer and we have shared this in the past also that in terms of further bid the content pipeline and add more security to the whole pipeline we have been acquiring a whole bunch of longer-term rights so what was earlier just five year rights in many cases we have done ten years, eleven years, fifteen years or even we have grown the perpetual library and so there is a significant amount of value obviously that is attached to the longer period that you keep adding and along with that I would also say is that we have also added to the range of the bundle of rights so earlier maybe we were only looking at the television rights or wholly digital rights etc., we now are definitely looking at and all the entire gamut of rights in most of the deal in fact we on certain deals if certain rights are not available we actually walk out of those deals.

Ashi Anand: So as and it is both an increase and the tenure of the rights as well as in terms of the kind of rights which are there?

Hiren Gada: Definitely in terms of the library if I have to use the word refresh or so in this period itself if you look at it we added movies like “Ajab Prem Ki Gajab Kahani”, the entire actually this library or many more what we would call more recent since where really the traction of the consumer is far higher, so movies like Welcome so we added the perpetual library of “Jab We Met”, Golmaal, Golmaal Return, Phir Hera Pheri, Mujhse Shaadi Karogi, so definitely more recent contents.

Ashi Anand: Broadly as in the tenure of the rights, the quality of the rights as well as the range of the rights is increase and that kind of explains this overall increase?

Hiren Gada: Yes.

Ashi Anand: Sir if I were just so can you extend this and if I was suppose to see if I am looking at an overall increase or improvement in the quality of my pipeline, ideally this should have reflected both in traditional media as well as new media growth. Now I understand the demonetization impact over the last couple of quarters, but even if I say go back over the last few years while we have been growing inventory costs at about 30% traditional media has not really been growing at a similar rate would this be reflective of say for example us actually buying a lot more online rights and actually that our costing deployed towards that or otherwise I would have kind of assumed that we are growing inventory at a particular right even traditional media should ideally be growing at the same rate because we improving the quality of our pipeline etc?

Hiren Gada: If I were to look at it there are two or three different ways to look at the whole thing in terms of what we have done versus where the things are. One is that the breakup of how we charge of also



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is an important point to note, which is that for longer-term rights and we buy which is ten years and above we break it up in to two buckets 65% and 35% so there is a certain amount of inventory, which is being carried forward for that period, which will yield in only in the next five year cycle so as we have gone more in to the longer-term rights, this is one impact that it has had on the inventory numbers. If you split that out, I would then roughly at least the traditional media growth would reflect very well on the growth. As far as the new media is concerned, clearly we invested in anticipation of the broadband penetration the broadband rollout as well as the overall digital media in that we have been discussing for last several calls that we have been in an investment mode and ramp up the library in order to prepare ourselves for the upcoming growth and if you look at it that digital media growth has to an extent delivered exceedingly well if even go back for the last four to five years.

Ashi Anand: Sir so if I could just one last follow up that when you mentioned the charging policy long-term rate 65% to 35% could you just please explain that bit better in terms of when does the 65% rate turn?

Hiren Gada: Actually I suggest that we can take this discussion offline because if you have not gone through the accounting policy you can go through it once and we can explain it to you separately because this call is more focused on the quarter and we could take it offline. We could have a call on discussion later I have no problem in that in the interest of the rest of the people.

Ashi Anand: Thanks a lot for the answer.

Moderator: Thank you. We take the next question from the line of Shariq Merchant from Quest Investment. Please go ahead.

Shariq Merchant: Good afternoon Hiren. I am referring to your comment that you made on YouTube revenues not have been picked up as yet so just wanted to understand what is the challenge that holding that piece back and also within that if you could talk about how your revenues per click on YouTube has moved because what I am trying to understand is this is a revenue share model right so you do not get paid per click but you get paid for ad shown on every video so YouTube takes a price increase that a kind of flows down to you as well so how has that piece moved overtime as well and how do you see YouTube revenues picking up over the next year or couple of years?

Hiren Gada: Two or three questions and I will quickly try to discuss that. So firstly the revenue model is very clear that we earn out of the ads that get shown on YouTube and whatever YouTube makes we earn a percentage of that. Now therefore there are fundamentally there are three dependencies if we look at it. First is the overall ad spend scenario. So that is the basic starting point of how much the platform itself can make that is first. Second is what is the fill rate at which the ad gets filled so how much potentially every click is inventory or every view rather is an inventory, how much of that inventory got filled up is the second variable and the third variable is at what rate that ad got locked, so a Mercedes will have a focus campaign and pay a higher rate per ad served



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versus the Gillette will have a mass campaign and we look for a lower rate and may not have a targeted campaign compared to say a premium brand. So that all put together actually determines how the ad moves. Now fundamentally what we have seen is that the overall revenue pie sorry the ad allocation that YouTube has been seeing in the last few quarters has been probably on a lower trajectory or stagnant, which has been caused by two or three different challenges. One is the same demonetization challenge, which hits the overall ad spends by brands so did the GST challenge hits. In addition YouTube got hit by one more challenge, which is what is internally called a brand safety issue, which is that ads were being shown based on targeting, but not based on the appropriateness of the video so if someone is seeing any inappropriate video even then some brands ads are being shown and those brands did not want to be associated with those videos. So as a result of that a few months back there was a huge pullout from advertisers and this is a global event, which has happened. It is in fact been very well documented you can check on the internet some of the details of this, but essentially many of the major spenders actually pulled out of YouTube during that period and that really hit. So YouTube in order to deal with that they introduced what is called a Brand Safety Guidelines, which is any of objectionable content was automatically marked for no ad revenue to be received and that has been happening now for a few months and we all have so it included things like where it had the keywords and things like that. So we have kind of gone and made changes to many of our videos in terms of the keywords and things like that, but when overall in the ecosystem there are many videos that go unmonetized. Now whether these advertisers are still fully back at this point, they are not yet back. We hope that they will be back over the next few months and when Google is able to convince them that we would actually made the necessary changes and it is now safe the brand do advertise on YouTube so that has been one challenge. Another challenge more in the Indian context has been the fact that there was a sudden ramp up in views so if you look at how our views have also gone we were at about 130 odd million views pre-Jio and within a year of Jio we are 3x at roughly about 400 million. So now this for the advertiser or the brand manager or the media planner is a challenge of different nature because of how much of change would you made to his own media mix and midyear changes is a question where this additional viewership and time is coming from and therefore what do have pullout of to allocate my budget over here. So those have been some of the challenges we are hoping that this one should get kind of be in place probably in the next two couple of quarters. On the brand safety, I guess it will have to be it is a larger point for Google and YouTube overall to deal with and they have obviously very powerful and large an effective organization so I am very sure that there is a lot of corrective action, which has already gone in and continue it is continue to go into that so very soon they should launch that but on that one no it is an industry wide impact so even I would not have a timeline on that.

Moderator:

Thank you. Next question is from Nimesh Desai from Kitara Capital. Please go ahead. May I request you to disconnect and if you can dial in again come back in the queue please? Thank you so much. We take the next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.



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- Sunil Jain:** Good afternoon Sir. My question more relates to if I reduce your work on the consolidated and the standalone financials the difference is related to one subsidiary. So that seems to be quite high at in this particular quarter so is there any extraordinary in that?
- Hiren Gada:** In terms of revenue you are saying?
- Sunil Jain:** Yes revenue and EBITDA both.
- Hiren Gada:** In fact if you go back in terms of couple of quarters back actually in the last year the loss over there was much higher. So from there it has kind of some into a lower loss or near profit kind of a scenario on the EBITDA front. So if you see the minority interest loss, which came down from in the previous September quarter from 84 lakhs to 5 lakhs.
- Sunil Jain:** This must be including some intertransfer or something like that, because see the consolidated revenue is 134 Crores and the standalone is 126.7, the difference is 7 Crores whereas EBITDA difference is around 4 Crores?
- Hiren Gada:** Yes but that was because of during the earlier period there was a higher loss.
- Sunil Jain:** Okay anyhow I will take it offline and Sir second thing you were talking about the margin range of around 25%, 27% if you see the past 2016 and 2017 I am not going back to 2015 and 2014 but 2016 and 2017 the EBITDA margins were over 28, 29%?
- Hiren Gada:** Sorry I stand corrected, it should be in that 27% to 30% points.
- Sunil Jain:** On the contrary, we were expecting it to improve see second cycle of your inventory piled up which has happened in last four, five years so the second sale, which will happen of the right which was acquired for more than five years that should have a higher margin or as compared to as the accounting is only for 35% of the inventory?
- Hiren Gada:** Yes, but a lot of that has not yet matured in terms of sales.
- Sunil Jain:** Yes but I am talking about the future.
- Hiren Gada:** Yes and no definitely that would contribute and at the same time for the fresher content that we acquire it will have a certain renew if we are doing any renewals and all of that it will have a certain margin so in fact to margin is something that I have been always saying the last two or three quarters is that at this point I do not want to bet on a margin improvement, scalability and overall business growth as well as combination combined with that on impact on the balance sheet I think that really is the current focus.



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- Sunil Jain:** Great and then this new media whether the margins are better than the traditional media or they are at par?
- Hiren Gada:** They are better than the traditional media based on the cost allocation that we have internally done.
- Sunil Jain:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Rahul Malani from Trivikram Consultancy. Please go ahead. As there is no response from the current participant, we take the next question from the line of Dhvani Desai from Turtle Capital. Please go ahead.
- Dhvani Desai:** Good afternoon. Congratulations for good set of numbers. A couple of questions one is that if I look at your balance sheet from March 2017 and H1 FY2018 we did have generated good free cash flows and we had also replaced debt both in terms of the short-term and long-term; however, on the interest cost side we are probably on the higher side so any kind of a highlights or view on that?
- Hiren Gada:** This is the interest benefit for the repaid portion should accrue in the second half and as and when we tear down anything further overall the full impact will be available on next financial year.
- Dhvani Desai:** Second question is on the traditional media side I think for last couple of quarters from the start of the year we have been saying that maybe it is fair to expect around 10% kind of a growth on the traditional media side and in the first half we are at around 5%, 5.5% so in order to do 10% kind of a growth we need to grow at a significantly higher rate in the next half so do you think we would want to maintain that kind of a guidance or do you think that the number would be slightly lower than what we started getting that in the start of the year?
- Hiren Gada:** As of now in this quarter we grew by 11.8% and traditional media in the six months therefore is at 5.9%. As of now we should and we are very hopeful for be a double-digit growth for the full year. I would not want to change that base on what we are seeing on ground at least at this point in time.
- Dhvani Desai:** Sir last questions from my side is if we just look at one of the peers overall we have and we get right for the different music of the yesteryears, they have come out with some very innovative way to monetize that few products and I was just kind of thinking do you have any kind of a thought process around that with respect to whether this kind of a rights can be monetized in a different manner more on a B2C offering rather than we going on different platforms and monetize it?



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- Hiren Gada:** All I can say at this point is that there are many things in the work; lot of exploration is going on. It is very difficult for me to compare a music product with video because both have different dynamics will drive demand or consumer pull or anything of that sort, but all I can say is that there are many things, which are in the work as an overall as an organization. Now whether it is in the form of a physical offering or it is something else at this point it is too premature for me to comment on that.
- Dhvani Desai:** Thanks. That is it from my side and all the best for the future.
- Moderator:** Thank you. We take the next question from the line of Shirley Jeribara from Cresida Investment. Please go ahead. As there is no response, we move on to the next question is from the line of Vikas Kasturi from Value Tree Capital. Please go ahead.
- Vikas Kasturi:** Hiren in some of your previous calls you had mentioned that you would be switching gears to focus more on the sales part of it so we would see a better sales to inventory kind of ratios how many quarters where would you be from such a thing Hiren?
- Hiren Gada:** At a broad level I think we are more or less there and I think we should be looking at it closely in from next in fact I would say this is the plus in that sense.
- Vikas Kasturi:** So from now on you are saying that our sales would be more than the inventory if the sales addition would be more than the inventory addition?
- Hiren Gada:** Yes that would be the target.
- Vikas Kasturi:** Second question I had was sometime back in the newspaper this particular item that Shemaroo was bidding for the railways providing entertainment for passengers in the trains could you throw some light on that?
- Hiren Gada:** Railways has been coming out to its several tenders. In fact at this point, they have a train called a Tejas Express, which run between Mumbai and Goa so we already are providing some content to that but of course that is a very small one-half kind of a thing pilot kind of a thing but they have been actually looking at more wider rollout of some potential video-based streaming offering to the passengers and so there are many people in the fray who are looking at it. We have also evaluated and looked at that opportunity but obviously this is a much bigger thing because there is a large technology rollout that is needed in terms of the installation etc., and we are not a technology company nor are we investing in the hardware so for us we would look to work on the content side and that is an opportunity that we have explored. In fact one of the previous questions that is why I was not able to or not commenting on that because there are multiple things that we have been looking at. So this is one of the opportunities that are being explored.



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Vikas Kasturi: Thank you again for that answer. One last question see on YouTube I came across this movie is Rustom and it had Shemaroo on it somewhere on the screen and I was curious to know because I thought Shemaroo is involved in the second cycle usually when the movies are little older so how was it involved in a relatively new movie like Rustom?

Hiren Gada: We had released the DVD of the movie and it is possible that someone have ripped the DVD and uploaded on YouTube.

Vikas Kasturi: Thank you Hiren.

Moderator: Thank you. We take the next question from the line of Lalaram Singh from Vibrant Securities . Please go ahead.

Lalaram Singh: Hiren my question is on the digital media side I think over the last two-and-a-half-years we have done significant hiring at senior level so just wanted to know whether there is a change in our strategy towards digital or what kind of what is the runway ahead in terms of digital. Is it the same, which we have been doing till now or something more, has been thought auction this area?

Hiren Gada: There are many things that are being evaluated and in the works. It would be unfair at this point for me to actually discuss something which is still half cooked, but suffice to say that we have looked at the whole digital opportunity in terms of how do we obviously leverage more on the content, leverage more on the relationships and overall, this is a large ecosystem. The way we are looking at it is that actually this was only the first phase of the whole digital story in India. There has to be many more innovative business models will come up and multiple things are likely to come up and what are the ways in, which we can participate in that because broadband 4G broadband available with us mass penetration will create many, many new business models. Just a way Internet 1.0 then Internet started so many different business models got created which no one had ever dreamt off. Similarly there are many, many opportunities and our teams are yes we have expanded we in fact broad based the management overall in terms of both the operations as well as newer initiatives that we are looking at so there is a significant professionalization that has gone in and in fact I would say we have a very robust team at this point in time.

Lalaram Singh: Apart from the business models, which might emerge, are we looking to think in terms of the content, which we have to enter into new kind of content, which could be like maybe music or something of that sort or do we still want to retain our core which is currently what we do?

Hiren Gada: Music is something at this point we are definitely not looking at, but overall in terms of content and if you see in the last several quarters and we have spoken of for this multiple times that we for example have a very strong devotional content library, we have a very strong library in a whole bunch of regional films for example so there is a whole lot of things that apart from just Hindi films that has been developed or kind of added to the repaitre and that is something that as we are going ahead the monetization different means and methods keep emerging on that.



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- Lalaram Singh:** But Hindi films to still we remain significant part of the revenues correct?
- Hiren Gada:** At this point yes, definitely.
- Lalaram Singh:** So but do you foresee that other kind of genres becoming significant?
- Hiren Gada:** In the near future no, but who knows how things could move if we take it may be three to five years down the line at this point is very difficult for me to forecast out because a lot of the ecosystem itself is still developing and dynamically changing on a daily basis but Hindi films per se if you look at the traction on virtually every platform whether it is television or on digital Hindi film overall has a very, very high viewership share and at this point that has to be a poor further mass strategy that we should have.
- Lalaram Singh:** One final question on the balance sheet so in this year how much more debt reduction can we expect in FY2018?
- Hiren Gada:** FY2018 actually it is again premature for me to give a number, but there should be a certain reduction because at this point the additional investment need has tapered off as I shared earlier so we definitely should see a further reduction, I mean to quantify is very difficult but at least as of now we should be directionally, it is going to be lower may not be very significantly lower but definitely lower.
- Lalaram Singh:** Can you give the cash flow numbers for this first half if you can?
- Hiren Gada:** Offline we can share it.
- Lalaram Singh:** I will reach out to you. Thanks.
- Moderator:** Thank you. We take the next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** Thank you Hiren for taking my question. Most of my questions have been answered. Just one thing in terms of the digital world of course Google and YouTube are one of the major advertisers but apart from that Facebook is a second biggest thing so is there any way to monetize that for us? And secondly what is the kind of contribution that we see from Facebook in our digital revenue?
- Hiren Gada:** At this point Facebook is not offering a partner programming the way YouTube is offering. What they have done; however, they also have recognize a fact that obviously video is very big and YouTube has right on the world partner programming so they have made some initial experiment with you select people. There is a larger rollout expected next year on Facebook. At that point, we will have more idea on two or three aspects the share, the kind of CPMs that they are able to



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attract and what kind of therefore spend or budgets they are able to attract from the advertiser, so I think that at this point is a bit nebular but they definitely have a good ambition on video and that has been well documented and announced also. Jai would like to add further here.

Jai Maroo: Obviously in recognizing the growth of the medium and actually the growth of the various forms of consumption on Facebook you would have seen even in terms of our own efforts that there is a lot more activities that we are doing using Facebook as a platform, if you look at the kind of and we have made some announcements in the last so many quarters, the kind of events we are doing using Facebook Live, creating some new and innovative formats for video consumption or Facebook Live consumption and so on and all of which is basically geared towards harnessing the growth in that platform and hopefully as more clarity emerges from Facebook next year on how that a partner program of some sort would rollout we would then tweak the strategy further to take advantage of that, but until we have more from Facebook we cannot really say much on that front.

Sarvesh Gupta: Just one final question on the gross margins bit while it has come down but maybe we have done it in speaking into cognizance our desire to accelerate the revenues but at the same time are we adhering to that 18% IRR even now?

Hiren Gada: Yes that is very important for us internally because at the end of the day that is an important benchmark that we are always looking at.

Sarvesh Gupta: So we have not sold anything cheaper just to accelerate that if any?

Hiren Gada: No not at all.

Sarvesh Gupta: Thanks a lot Hireen and all the best for the coming year and the quarter. Thank you.

Moderator: Thank you. We take the next question from the line of Rahul Malani from Trivikram Consultancy. Please go ahead.

Rahul Malani: Good afternoon Sir. My question was on the EBITDA margins. If you will get the quarterly EBITDA margins the third and the first quarter of the company's are the best the EBITDA margin range from 30% to 32% but second quarter and third quarter that EBITDA margin slightly varies from 25% to 28% may do you just throw the light on it, please?

Hiren Gada: Actually many things going to the margin including in the new media business also there is a certain seasonality so to be honest we have not looked at really that kind of variation on a quarter basis as and we have not gone deeper on that and a simple reason for that is that there is a certain amount of business, which is deal base and certain business, which is distribution base, which has a seasonality attached to it. So there are multiple factors that would go into that.



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- Rahul Malani:** This is a continuous phenomenon if you look at the financial year 2014-2015, 2015-2016, 2016-2017, you will look at this phenomenon your best margins stands at in fourth quarter and first quarter and slightly the margins have dipped in second quarter and third quarter so just wanted to know?
- Hiren Gada:** Like I said we internally do not look at it that way.
- Rahul Malani:** Thank you so much all the best for your future.
- Moderator:** Thank you. We take the last question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.
- Pragya Vishwakarma:** Sir what is the total number of rights we have and if you can give the breakup between perpetual and aggregate?
- Hiren Gada:** If you do not mind, Pragya I can email it to you. We are just updating the whole thing and putting out a new PPT very soon. So the number will get coming out.
- Pragya Vishwakarma:** Then last question is it possible to give some idea on what kind of revenue sharing model you have with YouTube?
- Hiren Gada:** Yes YouTube is very clear. In fact if you can go to YouTube site and see the number. It is basically there are two aspects there is a platform share and then there is ad sales market commission that goes so net of everything we earn between 50% and 55% actually 52.5% to be more precise.
- Pragya Vishwakarma:** Thank you so much. That is it.
- Moderator:** Thank you. That was the last question. I now hand the floor over to the management for their closing comments.
- Hiren Gada:** Thank you everyone for spending time and stopping by and hearing in to the earnings call for September 2017. Looking forward to a great year ahead. Thank you very much all the best.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference. Thank you all for joining us. You may now disconnect your lines.