"Shemaroo Entertainment Limited
Q2/H1-FY25
Earnings Conference Call"
18th October, 2024

ANALYST:

Mr. Anuj Sonpal – Chief Executive Officer - Valorem Advisors

SHEMAROO ENTERTAINMENT LIMITED

MANAGEMENT	**: Mr. Hiren Gada – CEO**
	: Mr. Arghya Chakravarty- COO
	: Mr. Amit Haria - CFO

Shemaroo Entertainment Limited
Earnings Conference Call Q2 & H1 FY '25
October 18, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY '25 Conference Call of Shemaroo Entertainment Limited hosted by Valorem Advisors.

As a reminder, all participants' 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 touch tone phone.

I now hand the conference over to Ms. Purvangi Jain from Valorem Advisors. Thank you and over to you, ma'am.

Purvangi Jain: Good afternoon, everyone, and a warm welcome to you all. My name is Purvangi Jain from Valorem Advisors. We represent the Investor Relations of Shemaroo Entertainment Limited. On behalf of the Company, I would like to thank you all for participating in the Company's earnings call for Q2 FY '25.

Before we begin, a quick cautionary statement. Some of the statements made in today's concall may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by, and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

I would like to now introduce you to the management participating with us in today's earnings call and hand it over to them for their opening remarks. We have with us Mr. Hiren Gada – CEO; Mr. Arghya Chakravarty – COO; and Mr. Amit Haria – CFO.

Without any further delay, I request Mr. Amit Haria to start with his opening remarks on the financial highlights. Thank you and over to you, sir.

Amit Haria: Thank you, Purvangi, and good afternoon. Good afternoon, everyone, and welcome to our earnings call for the 2nd Quarter and first half of financial year 2025.

Let me first start by giving you some key “Financial Highlights”, after which our CEO – Mr. Hiren Gada, will give you some of the “Operational Highlights”.

For Q2 FY '25, the consolidated revenue from operations stood at Rs. 162 crores, which declined by 18.5% on a Y-o-Y basis. EBITDA loss for the quarter was around Rs. 27 crores and net loss was reported at approximately Rs. 26 crores. For the first half of the financial year, the consolidated revenue from operations stood at Rs. 317 crores, which declined by approximately 10% Y-o-Y basis. EBITDA loss for the first half was around Rs. 40 crores and net loss was reported at approximately Rs. 44 crores.

With regards to new initiatives, in Q2 FY '25 the expenses amounted to Rs. 15 crores, while for the first half of FY '25 it was about Rs. 23 crores. And if you were to adjust this investment, the adjusted EBITDA loss from the existing operations in Q2 and H1 would have been lesser of approximately Rs. 12 crores and Rs. 17 crores, respectively.

Digital media revenues for the 2nd Quarter to rate around Rs. 67 crores, which increased by approximately 17% Y-o-Y, while for the first half of the financial year it was around Rs. 124 crores, which grew by approximately 8% year-on-year. Traditional media revenues for the first quarter stood at around Rs. 95 crores, which declined by around 33% year-on-year, while for the first half of the financial year it was around Rs. 192 crores, which was a degrowth of around 19%.

Now I request our CEO – Mr. Hiren Gada, to give you operational highlights for the period under review.

Hiren Gada: Thank you, Amit. And good afternoon, everyone. During the 2nd Quarter of FY '25, our overall revenue declined 18.5% year-on-year primarily due to a higher base in our traditional business and in Q2 FY '24. While this growth was flattish against the previous quarter, which is largely due to the lumpiness of the B2B syndication business, that said, there were certain delays in deal closures in our traditional syndication business, which were largely a result of transitional changes in the media industry over the past few quarters. We expect these deals to materialize in the coming quarters. Additionally, there has also been sluggish demand for our broadcast advertising due to continued slowdown in the consumption economy. These put pressure on our traditional revenue stream. On a positive note, our digital business executed a robust growth of around 17% year-on-year on the back of sustaining growth across the industry in digital advertising.

The Company's margins remained under pressure due to accelerated inventory charge-off which we initiated two quarters back. Our inventory has come down from Rs. 727 crores as on 31st December, 2023, to Rs. 618 crores as of 30th September, 2024, which is about Rs. 100 crores, a little more than Rs. 100 crores in three quarters. However, it is important to note that these charge offs are purely accounting in nature and do not affect the monetization potential of the content library, revenue, or the ability to generate free cash flow. We continued to invest in intellectual property, further enhancing our content portfolio to drive long term growth. This has been done while keeping operational costs under check, and at the same level as the previous year. Looking ahead, our focus remains on strengthening the balance sheet and maintaining operational efficiencies, which will help us unlock the Company's intrinsic value.

In our digital segment, ShemarooMe continues to gain traction, particularly with our Gujarati content offering. In this quarter we released eight new titles which include movies, web series and theatre players, expanding our content portfolio. Noteworthy premieres include the blockbuster movies BachuBhai, Kamthaan, and the release of original web series Goti Soda 5. On YouTube, Shemaroo FilmiGaane has achieved a remarkable milestone, becoming the 24th most subscribed channel globally with approximately 70 million subscribers, reflecting our growing digital footprint and audience engagement.

During the quarter, we successfully launched two original shows, Shamshan Champa and Main Dil Tum Dhadkan on our channel Shemaroo Umang. Our general entertainment channels achieved a viewership share of approximately 7.6% in the overall Hindi GEC genre. We are excited to announce the launch of Jab We Met, one of Shemaroo's iconic IPs, as the digital collection and gaming experience on the Sandbox-BharatBox. This innovative initiative allows us to engage with our audience in new and immersive ways.

With that, I open the floor for question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yash Kukreja from Equitree Capital. Please go ahead.

Yash Kukreja: Sir, my first question is on the debt part. Sir my question is, how much debt are we planning to reduce in H2?

Hiren Gada: So, as we had shared when we started the whole accelerated inventory charge-off that our intent is that in two financial years, which is FY '25 and FY '26, we will reduce the debt by about Rs. 100 crores. I believe we have good visibility for that and we are fairly on track. Now, how much of that will happen in H2 of the current financial year and how much will happen in next financial year is difficult for me to say at this point in time because, as I have shared in my opening remarks that there are some transition changes happening in our industry and because of that few deals could move here or there between a quarter or something. But overall directionally and in terms of visibility and content portfolio, I think we have very strong confidence about what we have intended to do.

Yash Kukreja: And sir, my second question is, how much have you spent on the new initiatives in H1?

Hiren Gada: In H1 we have spent Rs. 23.2 crores.

Yash Kukreja: And sir, target for full financial year is around Rs. 60 crores, right?

Hiren Gada: Yes. Just to give you a sense, in last financial year this number was at Rs. 42 crores, so we've actually brought that under significant control, and directionally we are moving in the right direction as far as that path to profitability is concerned.

Yash Kukreja: And my last question is, what is the strategy on write-off? Sir, as we have had three quarters where we have written-off inventory, so how much are we planning to do in H2?

Amit Haria: So overall, we had mentioned that around 40% of the inventory as of December is what we are planning to write-off for the nine quarters. So, I would assume in the region of between Rs. 50 crores and Rs. 60 crores is what would be charged off as an additional inventory in H2.

Yash Kukreja: And sir, what has this number been in H1?

Amit Haria: It is in the same region, in the region of around Rs. 60-odd crores.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Limited. Please go ahead.

Jyoti Singh: Sir, basically I wanted to understand on the Shemaroo FilmiGaane that we have done well, like the 24th most subscribed channel in the world. Sir, how much like overall little like we are doing, but how much revenue we are doing basically from this song segment? Because all the labels companies they are doing very well, so in that competition where we are and what's our target for this segment?

Hiren Gada: I would like to first clarify that there is an audio business which is a music business and then there's a video which is the audio visual part. So audio is something that goes through many audio apps like Spotify, Apple Music, Jio Saavan, etc., etc. Traditionally we have never been a music label. We have always been on the video side of it, right from the beginning we've been a video label, so video cassettes, VCDs, DVDs etc., etc. Having said that, what we get as a part of what we own is the music videos of the content that we have and that too this practice of the industry was still in the year 2000. Post 2000 the music labels are retaining the music video rights, the producers have been assigning it to them. So pre-2000, broadly cut off is in the year 2000. So pre-2000 whatever we have, that is what we have as a part of our portfolio and that is what we have put on our music piece of the YouTube and various other digital platforms. So that's just to set the context.

Secondly, essentially this is a business which has grown phenomenally. In fact amongst, if I were to call out as a classic music or a retro music kind of a channel, we are the leading channel on YouTube overall. So that is something that happens and we continue to invest strongly on the content to further acquire and to retain our libraries that we have. So in fact, we already have pre-bought fair amount of content and that will come up for commencement of the monetization period over the next few quarters. So that's broadly, because this is a channel which is highly yielding for us, which gives us very good revenue stream and gives us a good visibility and it's a leading channel. So, we continue to invest strongly in the music side of this.

Jyoti Singh: Yes, I understood, fair point. Sir, I understood your point on the label side, because labels they are also on the YouTube and they are doing recent, and now YouTube Shorts are getting monetized because we are having more of existing library, so that is fine, so that's what I asked for your future outlook.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sir, first question is, if I look at our H1 numbers, we have almost Rs. 57 crores, Rs. 58 crores of PBT loss, and as we mentioned that the total inventory charge-off is around Rs. 50 crores to Rs. 60 crores, so net of that PBT breakeven, is that the right way to look at it?

Hiren Gada: Yes. Amit, you want to add?

Amit Haria: If we have to not take the additional charge-off, then I think so it would be appropriate that we would be probably kind of a breakeven.

Hiren Gada: We would have been above breaking, yes.

Dhwanil Desai: And sir, we spent on new initiatives around Rs. 23 crores, so for this year any budgeted number that we have?

Hiren Gada: I think we had given at the beginning of the year at about Rs. 60 crores is the annual target.

Dhwanil Desai: And we expect that to be well within that number? Like last year I think we exceeded our numbers, so.

Hiren Gada: At least, thankfully, I mean our team, I would say, has worked very hard to keep it significantly better. And as I was saying earlier, directionally in the right direction. And if everything goes well, I think we should be well within the limit.

Amit Haria: The actual number has been at Rs. 23 crores, so taking a few from there I think so we should be in more or less in the line with the budgeted number.

Hiren Gada: No, he's asking whether we'll do better than budget or not? I said if everything goes well, I mean, our intent is to do better than that, obviously.

Dhwanil Desai: And Hiren bhai and Arghya both of you can talk a bit about, because whatever traditional media number is there, there is always this syndication part which, again, the breakup we don't give. But if you can talk a bit about how the broadcast business is doing in terms of the monetization, the ERs in terms of market share. And also, are we near to breakeven at a portfolio level, how do we look at that journey from breakeven to becoming profitable, more color on that would be really helpful.

Arghya Chakravarty: Hi, Dhwanil, this is Arghya here, I'll take that question. I think there are two parts to it, as Hiren said in the beginning, while our digital business has shown growth in H1, the overall numbers are affected by the traditional business. But a large part of that traditional business decline is because of the syndication deal which, as was indicated, is because of the transition in the industry that is happening over the last few quarters. Broadcast business also, I would say, while it is not declining to that extent, it is almost flat from a business point of view. But the kind of resurgence on demand that we had expected, which we have been expecting now for quite a few quarters in broadcast is something which we have not seen completely. I think it is partly because of the consumption economy being not in the most robust situation. And we are all hopeful that it will turn around, but it has still not seen the light of the day.

In terms of our shares, we really remain consistent from the quarter-to-quarter. No major change in viewership share has happened, we are at about 7.6%, 7.7%, that kind of viewership share in the GEC segment. And as you know, ER is a function of demand, so if you look at the overall industry level also, the overall skill level of the entire industry on GEC remains a little subdued, and it is only when the fills are full when the pricing will go up, because it's finally at the end of the day the demand has to outstrip supply for the pricing to go up. So pricing has remained flattish. We are not seeing that kind of improvement. But at an overall level, broadcast is not doing as robustly as we had expected, largely due to the advertising economy remaining still a little soft, especially for the traditional business.

Dhwanil Desai: Just one follow-up on that, so Arghya, so essentially some demand environment is something which is not in our hand. The only thing probably what we can do is try to increase the viewership share and the market share. So, what are we doing on that? Because we are at around 7.5%, 7.6% for few quarters now, so what are the initiatives that we are taking to move towards that aspirational number of 14%, 15%?

Arghya Chakravarty: So, Dhwanil, it's a continuous process. I mean, it's irrespective of the demand situation in the market, I mean these are two things which are not linked actually. We would always want to keep increasing our viewership share irrespective of what happens in the demand scenario. So it's a continuous process, we keep evaluating shows, we keep evaluating options, we keep increasing FPC, we keep changing FPCs. But also we have also been very prudent, if you look at our overall cost lines which I think Hiren mentioned in his opening statement, our cost lines have remained flat quarter-on-quarter. So we have been also provided in terms of not going over, both considering the overall situation in the marketplace.

While we do that, there is a significant evaluation of program content, both in terms of what we get as syndicated and what we create. And as Hiren said we created two new shows. The show pipeline continues the way it is, and it will be a little more gradual process because of the overall situation around the economics of it. And if you look at, as Hiren said, our investments or new initiatives have come down from a Rs. 42 crores last year H1 to Rs. 23 crores this year. So it also shows that we have been pretty prudent in the way in which we have gone about it, and we'll continue to be so till we see the buoyancy come back in the consumption economy.

Moderator: Thank you. The next follow-up question is from the line of Yash Kukreja from Equitree Capital. Please go ahead.

Yash Kukreja: Sir, I wanted an update on the new channel.

Hiren Gada: Which channel, the new to-be-launched channel or?

Yash Kukreja: Correct, new channel, right.

Hiren Gada: Yes. So as we updated last time, we are all set and ready with everything. In terms of right from the content to everything, but since the conditions are not ripe yet, the demand scenario on advertising, etc., ad spends is on the lower side. We have held back since we don't see that bettering of that, because obviously it is additional investment, we'll rather do it at the right time. So that is the thing, so right now we still haven't seen the ripe conditions for that.

Yash Kukreja: And sir, any update on the GST case?

Amit Haria: So, we had received the show cause and we have intimated on the exchanges also, with the demand of Rs. 70.25 crores along with the interest and penalty thereon, and Company has appropriately replied with repeating all the charges and claims.

Yash Kukreja: And sir my last question is, how have the ad spends been? Like, have you seen any surge in that due to the festive season?

Arghya Chakravarty: So, I just spoke about it, Yash, I think there are two parts to it. Baseline advertising still continues and hence there is some kind of growth in the digital part of the business. But the surge which normally affects the broadcast business which starts happening is something that we are yet to see.

Moderator: Thank you. The next follow-up question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sir, one question on the MarathiBana. I think it had become a pay channel, if I recollect correctly, and we said that we need to now restrategize on that. So, if you can give update on that, how that process is going? Are we getting back that viewership share that we had in that market? How are we thinking about that channel?

Arghya Chakravarty: So it is still work-in-progress, Dhwanil. It's just been four or five or six months since we have moved. We are evaluating various options. We are trying out a lot of syndicated shows. We are trying out a lot of our own content dubbed in Marathi, some of them are doing quite well. But in terms of a full blown action in terms of what kind of originals to bring in and what is the positioning of the channel it is still work-in-progress. And as Hiren was saying and as I also said, the market is not really very ripe to try various experimentations on the channel. It is that the viewership share remains the same on what it was when we had moved it in the month of April and May. There is slight movement, 1% up/down here and there, but it is still work-in-progress. And we will not really press the levers too much unless the market outside becomes more ripe and right.

Hiren Gada: I will add to that. So basically, to clarify, the channel continues to remain free to air, it's not a paid channel. What we have done is we have exited from free dish, which was a very high cost option, the price had gone up to an unviable level. And as we have shared earlier also that this year, keeping the overall structure to a prudent and viable level was a very important part. So that was one thing that therefore we did not renew our over bid for that. Now, having said that, it continues to remain free, and actually free but on the pay distribution network, pay ecosystem.

Having said that, actually we have grown from where we started through the programming strategy and everything. What Arghya was referring to was what is the next step from here, how do we take this channel forward is the whole thing. So we have actually revived more than, so moving out of the free ecosystem in effect has been a good decision from what we can see in the last six months of performance.

Dhwanil Desai: And one last question, slight picture that if I look at the entire ecosystem of TV broadcasting, do you see any market share shift or ad spend shift moving away from GEC to other categories? And another corollary to that is, in the FTA space, the largest player has also launched a second FTA channel and I think that also in terms of viewership is doing reasonably well, if I am right from the BARC data, whatever that I can see. So what is the impact of that on the overall FTA ecosystem to us?

Arghya Chakravarty: So first question was shift of advertising money from GEC to any other genre. I think finally, advertising money follows viewership. So, as viewership trends change, the advertising money shifts or moves along with that. And to give you a sense, what has happened in last couple of years is that there has been a plethora of new movie channels that have come up. So movie genre has taken up a certain amount of viewership share from many genres, including from GEC, which definitely has taken some, so money has followed that over there to some extent.

Second, few pockets of regional channel, say, Marathi, Bangla, etc., have also grown, some channels within those pockets also have grown significantly. So their share in the overall pie has grown in terms of viewership and therefore their share of the advertising pie has also grown. But fundamentally, the core point is that advertising money moves with viewership. But this is what has happened broadly, so GEC genre definitely has lost some amount of advertising revenue because of certain shift in viewership.

Second, to mention about or the second question was regarding the second channel, in fact that channel actually has been around for some time. They in fact had a third channel which they shut. So they consolidated the content into one channel, what they had in three they now made it in two channels, so that is what has actually happened. And in fact this channel was launched at the same time when Umang was lodged, so it's been around for more than 2 years, 2.5 years almost.

Arghya Chakravarty: It's been there for quite some time now, I'm surprised you say that.

Moderator: Thank you. The next question is from the line of Sanju Dhamani from SKD Consultant Private Limited. Please go ahead.

Sanju Dhamani: Namaskar. Actually, I am new to the Company. I joined at 12:20 only, I am bit late. So my first question is that such a huge loss that we have incurred in this quarter and half yearly is not worrying the management, and what are our strengths that we can perform better in the next two quarters that I would like to understand? I mean, suppose some new hits are expected to be launched or something like that, so I want an overall view for this year from the Company sir. Thank you.

Hiren Gada: Mr. Dhamani, I request that, actually we have covered all of this in the first 15, 20 minutes of the call. So I would not like to reiterate right now because there are more than 50, 70 whatever few many people on the call, so I really don't want to spend that time. We can take it offline, you can connect with us separately or with our IR agency, Valorem Advisors, and we will take you through all of that, if you don't mind.

Sanju Dhamani: No, no problem. So would you like to add anything to what you have already spoken sir?

Hiren Gada: No, I think we have broadly covered, and in fact subsequently also in the Q&A session.

Sanju Dhamani: Okay, no problem. Thank you very much and all the best, sir. I will connect separately offline.

Hiren Gada: Sorry for that. Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Hiren Gada from Shemaroo Entertainment Limited for closing comments.

Hiren Gada: Thank you all for participating in the call. I hope we've been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the

Company, please reach out to our IR managers, Valorem Advisors. Thank you and wish you all a very Happy Diwali in advance. Thank you.

Amit Haria: Thank you very much.

Moderator: Thank you. On behalf of Shemaroo Entertainment Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines. Thank you.