"Balaji Telefilms Q3 FY2018 Results Conference Call"

February 14, 2018

ANALYST: MR. ROHIT DOKANIA - IDFC SECURITIES

MANAGEMENT: MR. NACHIKET PANTVAIDYA – CHIEF EXECUTIVE OFFICER OF ALT – BALAJI TELEFILMS LIMITED
MR. SANJAY DWIVEDI – GROUP CHIEF FINANCIAL OFFICER – BALAJI TELEFILMS LIMITED
MR. KARTIK SANKARAN - SENIOR VICE PRESIDENT - INVESTOR RELATIONS – BALAJI TELEFILMS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Balaji Telefilms Q3 FY2018 Results Conference Call, hosted by IDFC Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by entering "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Dokania from IDFC Securities. Thank you and over to you Sir!

Rohit Dokania: Thank you Melisa. Good afternoon everyone and firstly apologies for the delay in start of this call. Welcome to the Q3 FY2018 results conference call of Balaji Telefilms Limited. I would like to thank the management for giving us the opportunity to host this call. The management team is represented by Mr. Nachiket Pantvaidya, CEO, ALT Balaji and Group CEO, Mr. Sanjay Dwivedi, Group CFO, Mr. Kartik Sankaran, Senior VP - Investor Relations and other senior management personnel. We will start the call with the commentary from the management and then move into the Q&A. Thank you every one and over to you Kartik!

Kartik Sankaran: Thanks Rohit. Good evening everyone. Welcome to our Q3 FY2018 Earnings call. We announced our quarterly results and nine months results last evening and the results presentation is also available on the company website. I hope you have been able to download this and go through it.

I would like to remind everyone that anything said on today's call pertaining to the future and the outlook for the business needs to be taken at the forward-looking statement and in context with the risks we face. I would now like to hand over the conference to Mr. Nachiket Pantvaidya to give us an update on the business performance. Over to you!

Nachiket Pantvaidya: Good evening every one and happy Valentine's Day and thank you for joining us for Q3 FY2018 Earnings call. I will start with the quick performance update and also update you on how we see the business revolving over the next few quarters.

On the ALT Balaji Digital front, we ended December 2017 with 14 original shows making number one destination for original and exclusive OTT content in Hindi. Now, we stand at 17 shows, that's an improvement on the 14 number. Our library consists of something for every type of audience. We have an upgrade to daily shows like Karle Tu Bhi Mohabbat to high impact stories like the Bose Dead/Alive, series that we put out with shows like Ragini MMS 2.0 and Dev DD.

Hence the library gets stronger as we bring even more new stories every quarter, so since then we have also launched Test Case and Haq Se, which is giving us good numbers. We had set out to create a differentiated entertainment experience for individual consumption. The response so far has been great.

The feedback we have been getting for our shows only strengthens up presence that Indian audience love new and fresh stories and where exists to a sizeable base of viewers to looking for the differentiated stories and from a business point of view also are willing to pay to original stories.

We continue to believe that Indian viewers now have a very good alternative to the type of shows available on Indian Television or the foreign language content on another OTT services and as other players in the market add more language content, this will only allow viewers greater choices, slowly change the viewing habits from traditional to digital OTT. For example in Q3, our much talked about show Bose Dead/Alive went live on the platform. This is the story that examines the midst behind one of India's most iconic freedom fighters, the character of Bose in this show, have been played by Rajkummar Rao and it is directed by Pulkit and it has been creatively produced by Hansal Mehta, the famous director. The show is set across five countries and chases the journey as this iconic character from being an introverted 14-year-old to a 48-year-old brave nationalist.

I would like to add that the show has had a rating of 9.4 on 10 IMDB**,** which makes one of India's highest rated original series and therefore we want to kind of go destroy the myth that we will make only make certain mass consumption product, which is of a certain quality. We are also able to express ourselves creatively and make high quality creative products on a digital platform.

We have also test marketed the show in the Reliance Jio platform which was well received. Subsequent to this in the current quarter we have signed an agreement with Reliance to make available all our shows in the Jio Cinema platform. This along with the other telecom partners is an excellent way for us to get more sampling and user for our content and never mind that you also get money for that.

During the quarter, we went live to Vodafone and ALT Balaji content and now ALT Balaji content is also available on Vodafone Play. We believe that these partnerships are important and necessary for the large telecom operators have large pools of customers and can help an OTT service like us good access and billing support while ALT Balaji can provide with original video so that we can help to create a regular data consumption habit. Early feedback from Vodafone deal shows that the time spent on the Vodafone Play app has gone up 2x to 3x on the back of original content resulting in better data consumption viewers.

For those new to our business I would like to explain our deals with Vodafone. Vodafone has a video playing app for Vodafone Play and all the ALT Balaji shows are available within the app and customer watching video of ours for a certain number of seconds in a month, ia treated as a view and we get paid for that month. Next month when customer watches a certain number seconds, we will get paid again and so on and so forth. The benefit of the partner will be to continue to monetize our content, also keep having more customers as the telecom company increases the user base. On Vodafone such kind of content helps to improve the data consumption of its network and also helps bring in a newer video consumers who may not be ready for English content or do not want to watch repeat catch of TV content.

Our differentiated content allows us to make these alliances and partnerships across the Internet ecosystem and as we add more partners we should be able to increase the number of consumers of ALT Balaji. Going forward we see these partners playing an important role in popularizing our content including the sampling and eventually getting a much needed in penetration into consumer viewing habits and wallet shares.

As we continue to add shows to the library, it will helps strengthen the value proposition to these consumers as well as allow telecom operators to increase the data consumption of the network leading to higher ARPUs. The benefits of the telecom partnership are as follows; One, it allow us to quickly reach the greater number of samplers, then you will get to by relying on word of mouth or just pull marketing. Two, functions such as customer billing and service can be handled by the telecom operator allowing us to focus on content creation. Three, telecom operators and the data analytics can help with reducing technology costs. All of the above while may result in lower revenue for user for us, but allows us to control our cash burn and helps us to quickly establish our profitable OTT business such as accessible to price sensitive urban markets.

I would now like to give you an update on how we see the key metrics on this business evolving over the next one or two years. We had initially felt that the Indian consumer would pay anywhere between Rs 80 and Rs 90 a month for an OTT service and we were going to attract 3 million or 4 million of users; however, we realize that at the rate of the data consumption is increasing and the change in data tariffs meant that there was a much larger universal video consumer but at probably lower price point. Our approach is always being to create a profitable business in three years and we continue to remain on track of that. We are seeing the instead of 3 to 4 million users, we should now be able to attract 7 to 8 million of course through our telecom partnerships at lower ARPUs of around 10 to 20 a month and 1 to 2 million international consumers at 1 to 2 dollar a month, in the first three years.

The impact of this feedback is that we expect to breakeven at about Rs 250 to Rs 300 Crores instead of the earlier Rs 350 to Rs 400 Crores a year level. In addition to the revenue we noticed about cost in the OTT side also have moderated. On the content side, while there remains a lot of noise for players paying over the top of creating content, our 20 years experience in creating hit content and with tight budgets will ensure that we are able to deliver hit OTT content without spending over the top. In addition to contents spend, we see clear savings in marketing and technology cost as a distribution partners co-shares some of these expenses.

I will share some of the key performance matrix for the quarter. We closed the quarter at 10 million downloads and added 2 million web users, so it means 12 million users totally. Our focus this quarter for that improving conversion of the existing downloads as well as driving usage to the Vodafone and Reliance and not necessarily spending marketing money chasing fresh downloads. All of these resulted in a crossing the 500000-paid user mark, so we have beyond the half a million mark on December 31, 2017 and we are well on track to clock the 1 million paid user mark in probably in the next 15 to 20 days.

Our customers have seen over 434 million minutes of content so far and the average view time on the app has improved to 98 minutes. It is equivalent to about five episodes of viewing. 90% of the user base is from India and we have seen viewership from all categories of viewers across metros, Tier 1, Tier 2 cities as well as smaller towns.

Internationally the business has seen good traction in market such as Pakistan, Bangladesh, US and UAE. These have been markets that are traditionally appreciated in Indian content. In terms of the shows and what has been working, I am happy to report that the approach of creating content of different subsegments has working well for example a show like Dev DD aimed at the female audience is being sampled by over one million viewers and over 20% of them have been watching all the episodes. Then BOYGIRI, which is more male centric has about 300000 views and 22% has seen all the episodes.

Let me now conclude this update, by retreating our priority for this business, we want to create a profitable OTT business in the next two years and our focus remains on content creation and distribution. We are not keeping a specific download number or user-based matrix. All of our spending remains calibrated to ensure that they create value for our shareholders over the next four, three years. While the subscription OTT market has just opened up, we think there is substantial monetization and value creation of opportunities availble over the next two years and our head start in this will serve more advantage.

Let me now hand over to Mr. Sanjay Dwivedi, our group CFO to give you an update on the other business in the group as well as Q3 financial performance. Thank you.

Sanjay Dwivedi: Thank you. I will start with an update on the TV and movie business before going to the financial performance. Our TV business had a relatively modest quarter as the total programming hours were only 179 hours against an usual run rate of 225 to 250 hours a quarter. This quarter saw one of the popular high revenue show Chandra Nandini coming to an end on Star Plus after nearly 250 episodes. We are currently operating with five shows, two on Colors, two on Zee and one on Star Plus. As mentioned we remain focus on creating high revenue shows and not increasing the hours and the production without a similar increase in hourly realization.

Q3 FY2018 hourly realization came in at 33 lakhs in an hour and will continue to remain in the zone of 32 to 35 lakh range. Our margins this quarter improved on as we had no new shows launched in this quarter. Therefore, in spite of a reduction of over 32% a numbers of hours of programming, our gross margins have improved by 22.5% for the quarter. Our television shows continued to deliver the rating points for the channels and we are regularly receiving an additional incentive see over and above the base we committed by the channel. We hope to revert back to our original run rate of six to eight shows in the coming quarter and our in active discussion with channels for the new shows.

The movie business this quarter had no new releases and we continue to remain careful with our investment in the movie business and our working on projects where we are able to pre-sale a significant percentage of cost even before we commission production.

Our next release will be Veere De Wedding releasing in June 2018, starring Kareena Kapoor and Sonam Kapoor. We will also be releasing Laila Majnu creatively supervised by Imtiaz Ali a small budget movie with a fresh talent in May 2018.

This quarter we saw final clearance for our corporate reorganization of Balaji Telefilms. As part of the reorganization, we are merging the film production business of Balaji Motion Picture Limited and BOLT Media into the Parent Listed Company, Balaji Telefilms. This will allow us to streamline group structure, centralized and consolidate content creation in one single unit, then bringing down corporate and other overheads. These are resulted in our numbers being restated for prior period and our earnings release has more details and showcase the number with and without the corporate reorganization.

Coming to the financial performance, this quarter sees the impact of merger resulting the restating of our numbers. I will quickly summarize the impact given this effect of reporting. The merger has resulted in the creation of deferred tax assets of 27.8 Crores on account of around 80 Crores brought forward losses in the Motion Pictures business. This tax asset has resulted in the FY2017 profit increasing by Rs.27.8 Crores and therefore nine month FY2017 loss before tax of 11.4 Crores has changed into a profit of Rs.16.4 Crores. In the current nine month FY2018 tax expenses of 16 Crores include three items, MAT at 9.15 Crores, before tax charge of Rs.4.5 Crores, which is 11.5 Crores reversal of deferred tax as it created on account of reorganization in nine month

FY2017 less MAT of 7 Crores. Please note that all of the charges are account of before tax asset, do not result in additional cash outflow on account of taxation.

Coming to the key items this quarter on a standalone basis. 42% growth in EBITDA Q3 FY2018, EBITDA has Rs.12.9 Crores versus Rs.9.1 Crores in Q3 FY2017. 80% growth in PBT Q3 FY2018 PBT at Rs.12.6 Crores versus 7 Crores in Q3 FY2017. 28% growth in PAT Q3 FY2018, PAT at Rs.9.3 Crores versus 7.3 Crores in Q3 FY2017.

ALT Balaji remains in our investment stage and our consolidated numbers will have an impact of the start off losses incurred by ALT Balaji. Revenues remain flat and nine-month FY2018 revenues at Rs.319 Crores versus Rs.326 Crores in nine-months FY2017. EBITDA losses increased by 37% and nine-months FY2018 EBITDA at Rs. 32.5 Crores versus 33.6 Crores in nine month FY2017. Nine-months FY2018 losses reduced 59% and were at Rs.12.4 Crores versus Rs.30 Crores in nine-month FY2017.

Our investments in mutual fund unit at December 31, 2017 Rs.468.5 Crores and total inventory as of December 31, 2017 was at Rs.115 Crores, which includes new inventory of around Rs.47 Crores.

We believe that we well funded for our expansion on the digital business and continue to execute on our vision to create a profitable and value accretive media business. I thank you all for joining us today and now would request the moderator to open the Q&A session. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: This is Kunal Vora from BNP Paribas. Couple of question Sir, one is on your agreements with Jio and Vodafone versus ALT Balaji, now is the content same which you are providing to Jio and Vodafone and if that is the case what is relevance which remains for your OTT that is first, if you can answer that I will go to the next one?

Nachiket Pantvaidya: See first of all I think the app experience is unique to us. Secondly also on the app if you see the way the UI works is something that people are paying for. Having said that we expect that over the years if our telcos give it away free, people will choose those over the app to watch. If they keep doing that and if that keeps happening, then we effectively have a user base, which is going to be larger on telco apps as compared to our apps, and we are happy to be with it because that drives our growth. The content plays from our server and we have both control over the consumer from a data point of view as well as the we can bill for it. So we do not see any paradox, so we will keep building the app standalone as a platform. We are happy to take the money from any of the telcos if they are giving or if we do not do that the flipside of all this is that there is an ecosystem that we will loose out on, so when we made the business plan for the app, Reliance Jio was not giving away internet free that has not happened and because of that the whole ecosystem is changed. So my hard firm belief is that you can of course secure and bleed about 1000 Crores in the next three years and say that he is building some app, I do not know this is a hit or not, I do not want to break the distribution system. Our chosen part is to copartner with telcos to build with. First step is Vodafone, the second step was Reliance Jio in January 26 and end of February we will also be on Airtel. At any point in time towards three years down the line if you see that we do not to put all of the this back on our app we can terminate our agreements and take it all back having built 10 or 15 million subscriber base to it, so it also cuts out our marketing cost. So in the sense, I control the consumer and control the IP of the shows and I can always get it back. I am just taking out this 100 Crores marketing money out of that and using this as a marketing to breakeven point in about 800 days.

Sanjay Dwivedi: And we have also planning to have full data analytic of our consumers.

Kunal Vora: I understood. Sir is it fair to assume that the 7-8 million customers, which you are expecting in a couple of years' time, most of them will be Telco customers, and not direct customers of ALT Balaji?

Nachiket Pantvaidya: 80% Telco. it is not correct because we will always have the ALT Balaji logo and they will be served from our server. So of course they will come from Telco, but it may saying that the guy who watch Sony Television on Tata Sky, is a Tata Sky customer or Sony Customer, you tell me.

Kunal Vora: I understood.

Nachiket Pantvaidya: Because we owned the customer, we have the data also, so that is how I think fair is to say that they are partly telco customer and partly our customer, but it is like what is the distribution strategy for internet today. If you have got a lots of finances, I can keep saying that yes I will pour 300 Crores into developing this business in year five probably I will breakeven but that is the case. We are responsible to our shareholders and even the breakeven and yet keep our IP and consumers together. Also all our shows are branded ALT Balaji on these website, so everybody knows it is an ALT Balaji show.

Kunal Vora: Sure Sir and will you get fixed fees or it will be variable cost per customer as the customer base increases, we will have to keeping more?

Nachiket Pantvaidya: No it is not related to customer base, it is related to number of shows first of all, so when I signed the deal with 10 shows on the app versus when the deal is up for renewal for 20 shows in the app obviously the price for consumer dynamics in change, so this is a ascending scale and when we did this deal, we hardly had eight shows, today we have 18 shows as we progressed ahead our deals with the telco will become more rich, because we will have more shows.

Sanjay Dwivedi: With healthy library.

Nachiket Pantvaidya: Correct, so it is related to number of shows on the app.

Kunal Vora: I understood and just last question from my side. It is like Reliance Jio is one of the shareholders as well as they are now one of parties to which you are providing content through, is there any preferential deal or it is the same deal across all telecom operators?

Nachiket Pantvaidya: It is the same deal, so we are not differentiating across three telecom operators. The only thing that we did is tests goes out then before we get the deal as I mentioned in my earnings call before we went out to get some learning's and how the platform behaves, we tested goes out which was a one time deal and whole the library started on January that was the only that we will get differentiate with Jio that we tested goes out when it launched.

Kunal Vora: I understood. That is from my side. Thank you Sir.

Moderator: Thank you. We have the next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Nachiket, congrats for a strong performance. Sir over two questions, so you mentioned we are at 14 original shows as on Q3 ending and right now we are 17, what will be the number of hours we are right now and what is your thought going ahead next year?

Nachiket Pantvaidya: Basically at the end of March 31, 2018 we will be roughly around 120-130 hours. Our run rate seems to be 150 hours per year. So going ahead I think we will be about 150 hours, but we might want to pump this up to maximum level of 200 hours, why I feel that is that even if we actually see - moving towards 3 or 4 million paying subs by Diwali next will be might want to put in more hours on the app. Right now we are trying to also match our costs to for revenue realization. So because we feel that the ARPU cannot be Rs.80 or Rs.90 and it has to be lesser and therefore we are seeing from our earlier projected, there is a revenue down for me also want to make costs, for the purposes of this discussion our development pipeline is currently of 34 shows, but whether to put them into production and incur those costs over the next one and half years we will kind of ease it along with our revenues growth, so I think it is 22 shows next year and if the earnings goes well then more than that.

Ankur Periwal: Fair enough and the cost of this content creation will it be the similar ballpark what we have been discussing earlier or is there any revision to that?

Nachiket Pantvaidya: What we have been discussing earlier is about a 90-100 Crores cash spent, which will reflect at around 30-40 amount spent in this year, 30 Crores amount more spent will come, so the cash that you will put in will be within about 95-105 Crores, not more than 105 Crores less than 95 Crores depending on how we stay out on the app where you want to relieve everything after the first of the year the amount of course will change.

Ankur Periwal: Fair enough. Secondly on the distribution front, now in the domestic we do have a tie-up with Voda and Jio, how is our international expansion shaping up?

Nachiket Pantvaidya: I am glad you brought this. What you are finding and I must confess to you is that the content is being taken up in markets which have more Indian theme so UK and Europe the content is not being taken up that far because people are comparing it to Netflix and then they are saying that because they are second generation for generation Indians. But our real opportunity I feel lies in the countries of Indonesia, Bangladesh, Pakistan and Middle East. Between these four countries there are 500 million users, the economies are similar to us. So what we planning to do is to release the content post the IPL that is somewhere in June and release it in Bahasa and in Arabic and in Bangla. Targeting these three markets where we hope to get about a million subscribers more. What ARPUs will come from these markets, we will know only after but my suspicion is Rs.20 again. So another fragmented we are adding to the international strategy of setting it out in UK and Europe, is that to aggressive attract the Indonesian market by dub it in the local language, dub it in Arabic language and dub it in Bangla language.

Ankur Periwal: Okay and this dubbed content will be over and above the 120 to 150 hours of content that we just mentioned, right?

Nachiket Pantvaidya: No this 150 hours only will get dubbed. There will be a cyclic lag of two months for dubbing.

Ankur Periwal: Sure and I recollect in our earlier conservations you had highlighted dubbing of Hindi content to regional languages as well where are we on that?

Nachiket Pantvaidya: So Bangla is right now Tamil, Telugu available if you see on the app with the lag of a month, so when something is released now, a month later it is available in south languages, we have done a Bengali original which has done well for us, but like I said we have plan to do the whole Bengali big to address the Bangladesh plus West Bengal market somewhere in June, so Tamil, Telugu available immediately now on the app.

Ankur Periwal: So when you said now the Hindi content, which was visible a quarter back will get converted immediately, is that right understanding?

Nachiket Pantvaidya: Yes. To basically if you go to the app now, you can chose this language you want to Karle Tu Bhi Mohabbat and we want to watch it at Hindi, Tamil or now the other three languages.

Ankur Periwal: Okay that is helpful and lastly on TV content bit, but now we have seen slight dip in volumes although margins have sort of compensated for the that, what is our outlook there and what sort of growth can we look at that business?

Nachiket Pantvaidya: So TV content right now we are in this phase typically where I think we have got long running shows on and therefore the margins are very good on that but prospectively in the next four to five months, we will see getting us least four shows more typically broadcasters wait for the IPL to get over the launch. So we would have been launching them in April and May we are ready but for them the ideal period is post IPL, so I think that is where you will suddenly see three to four shows more coming on and therefore we should be chugging along with about nine shows at least as we entered Diwali period next year.

Ankur Periwal: That is helpful. All the best. Thanks a lot.

Nachiket Pantvaidya: Thanks Ankur.

Moderator: Thank you. We have the next question from Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Thanks for opportunity. Just couple of questions from my side, just trying to understand so we have now 15-16 original shows and this whole 16 Crores of cost which is there for the nine months, pertains to this or it is also pertaining to something which is work in progress and this is about the ALT Balaji?

Nachiket Pantvaidya: Yes, less than amounted cost, we will just give you a picture we spent about Rs.100 Crores in cash to produce our content of 18 shows. Because they are amortizing you will see expense item of 16 because that is an amount of 75, 25 amount transition policy depends on when you launch it, but roughly that you have got about Rs.100 Crores of content of which put out of cash and another Rs.50 Crores in marketing plus other expenses.

Sanjay Dwivedi: Just to sum up the amortization policy for the ALT content side, we amortized 75% of cost would have first year of the content when it is launched and 25% in the following 12 months.

Rajiv Sharma: So when ideally should not it be more or this is just pertaining to the quarter that is why we are getting a lower amount.

Sanjay Dwivedi: So actually we should see it takes so at the launch of the show the amortization kicks in, so we will only get a period effect to that extent.

Rajiv Sharma: Sir so far our content cost which has not got booked as about Rs.16 Crores.

Sanjay Dwivedi: So far you mean in three months?

Rajiv Sharma: No in nine months.

Sanjay Dwivedi: In nine months, yes and we are around 20, I think but your 16 could be good.

Rajiv Sharma: But the cash burn is Rs.100 Crores?

Nachiket Pantvaidya: Cash burn for the years, corresponding to this the cash burn is increased.

Sanjay Dwivedi: You launched few shows in April, then another shows came in that the way the amortization takes place, from the date of launch till it is not launched, it resides as an inventory into the balance sheet.

Rajiv Sharma: Sir roughly, we are spending about Rs.5 Crores per new show means whatever 15 series or whatever new program we are coming up with?

Nachiket Pantvaidya: Yes. It is roughly 35 lakhs for 22 minutes, if you want to – because all series are not the same length, some are 20 episodes, some are seven, so best way to look at this for 22 minutes of content we are spending around 35 lakhs on an average.

Rajiv Sharma: I do also see a staff cost of 11 Crores for the nine month period, so it seems most of this is getting you buying this content and other producers are doing it, so which this staff cost is the ALT Balaji staff cost along what technical?

Nachiket Pantvaidya: No, we are not buying content. The content basically get created and written by us and therefore the only IP, and the producers line produce the content, for example Karle Tu Bhi Mohabbat is a series that we design here is a creative thing, so actually to look at the staff cost about 30% to 35% of this staff cost is creative.

Rajiv Sharma: Okay. That is what I was trying to understand. Now coming to your deals with telco.

Sanjay Dwivedi: As commissioned to the line producers.

Rajiv Sharma: Okay and that commission is like if your cost is let us say 35, just trying to understand for a 22-minute episode say your commission in that will be how much?

Nachiket Pantvaidya: 10% to the external producer.

Rajiv Sharma: Okay and 90% is in house cost.

Nachiket Pantvaidya: No, there is nothing in house. I think let me just clarify so what we do and the media at large is that you get the idea developed in house and then you tell if somebody else to shoot it that person who will tell for the production company that you employ to shoot it makes 10% of the cost of producing it that was fee for producing, so 35 lakh you see even this 3.5 lakh, even producing margins and we will reimburse the whole 35 lakhs and in terms we will have our episode whose IP conceptualization is ours and make to our quality standards.

Rajiv Sharma: Got it. Now coming to your deals with telcos, Voda, Jio possibly you will be with other telcos as well, and you said that it increases with increase in content, so these are annual deals or these will be quarterly deals because you will be pumping content quarterly?

Nachiket Pantvaidya: No, we are regularly pumping content, in the month of January, had two launches, in the month February we will have to launch it again, in the month of March we will have two launches it again, so it is 222. I mean the deals themselves are long-term three deals, with exits whenever you want to. It is terminable on both sides.

Rajiv Sharma: Sir, I am just trying to understand how are you monetizing the incremental content which you have putting in, it already factors that that okay will be producing this much originals?

Nachiket Pantvaidya: No, it does not already factor that in basically it is a function of two volume and it should do well on that telco platform, so like I mentioned I think the Vodafone is doing well, there has been good feedback so far, so we do not know whether there will be ticking point in the ARPUs that they pay us on 18 shows and 25 shows that is for us to judge to renegotiate.

Rajiv Sharma: Okay. Can you share some kind of arrangements with the telco you have because you will end up cannibalizing your subscription revenues with this deal as well, I understand you will save Rs.100 Crores over a period of three to five years on marketing cost, but end of the day, you also miss on the topline because the same guy who will now watch it free on Vodafone, so I am just trying to understand how?

Nachiket Pantvaidya: I do not miss on topline. The guy might watch it free on Vodafone but the Vodafone pay me for that subscriber.

Rajiv Sharma: So if I would have paid you 20 bucks versus I watch on Vodafone, are you equally compensate it?

Nachiket Pantvaidya: That I cannot really – obviously it is breach of contract, so I cannot tell you what the deal terms are, but I am adequately compensated and let me tell you that it is not a small amount of money because here is the background to it, telco today has spent over Rs.8 lakh Crores in setting up data infrastructure and there is no content to mine this data because data is the new oil, then you need video as the new refinery to mine it, so we are the only producers of original exclusive content and therefore we are in a very, very good bargaining position right now having made 18 shows that is the dynamics, so the negotiations there vis-à-vis if the telcos do not get video to consume, and if it is exclusive video to consume then it becomes a destination, so if you get that video to consume where able to show data consumption far a higher level and more exclusive content excluding cricket of course, so I am not talking about cricket, which has its own drop, but on the content side, we have placed very, very good position because we deals with all telcos, they need us, we need them and this relationship means that our ARPUs are good that is point one. Point two is that our strategy actually on the app is to offer three episodes free and only then pay. With the telcos, our clock starts ticking immediately as soon as the person views for a certain second, let say 60 seconds, so that also makes a difference and sometimes I think that we will gladly go up to the telcos and use them as partner and at some changes seen at that market has expanded, a VOD evangelism has happened and people understand how to use this medium, we can always see all the content back on to our platform with a huge millions of subscriber base.

Rajiv Sharma: Okay. This is helpful. Thanks a lot. Thank you very much.

Moderator: Thank you. We have the next question from the line of Himanshu Shah from HDFC Securities. Please go ahead.

Himanshu Shah: Thanks Sir. Thanks for the opportunity. If you can provide some colour what would be the number of subscribers accessing our content to telco, we have 10 million downloads of our app but that does not include telco numbers I think so some customers like Vodafone player, Jio or combined put together.

Nachiket Pantvaidya: So when we declare this 550000, there was a 40:60 – 40% telco which is Vodafone and 60% us.

Himanshu Shah: Okay. So that is of the paid subscriber mix?

Nachiket Pantvaidya: Correct.

Himanshu Shah: Okay. But it is fair to assume that there would be more number of subscribers accessing content on Vodafone platform also, but they might not be reaching the second day just consumption threshold or something and therefore not converted into paying, fair to assuming that, so what would be the overall universe?

Nachiket Pantvaidya: I do not have an idea that is an interesting question but the threshold is so low that we are seeing 80% consumption now, somebody who clicked on our show does not easily go, 90% is coming in, actually this data is about two months old, so I am just predicating that. I did not see that data in the last two months.

Himanshu Shah: Okay. Sure Sir. I think Sir this was helpful. Secondly just trying to understand now in two to three years down the line, industry would be expecting probably anywhere around 400, 500 million data customer and assuming that we continue with our telco model or something while what could be our ARPU number, I am leaving it, but we are just targeting 7-8 million subscribers, so we are assuming that that should be like beyond 2% penetration, it might be difficult to increase or something?

Nachiket Pantvaidya: In paying subs?

Himanshu Shah: You mean paying subs.

Nachiket Pantvaidya: Well, the question there is actually strictly one ARPU related and secondly really when this 400 million appear, when you say about six months ago, you are talking of 140 million 4G user number, but that number is people who have 4G facility, video user out of that if you take, it will be only 40 million, so what that fact – so not all 4G users will be video linked, and I have also seen that the quality of internet when traveling etc., it stops in circles if you see. So it may be 10% or 15% drop of will be there. So taking that we have a kind of middle of the row estimate. If I went to Europe, really projected according to our market resource of course the 8 million number will be much better, but I think that is practically achievable and that is our breakeven marks, so we will adjust our cost according this number.

Himanshu Shah: Okay. Thanks. That is it from my side.

Moderator: Thank you. We have the next question from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia: If I look at the revenue that you have booked on the digital side, we have pretty steady at that 1 Crores quarter rate in fact we would have from Q2 to Q3, so if you could help us understand whether the accounting is somewhere causing that or is it that the absolute number or signs up from Q2 to Q3 as a drop?

Nachiket Pantvaidya: Basically what has happened is that we did release as many shows that we wanted to in Q3, our Q4 numbers will look much, much better, also our telco deal really started talking shape in November 15 onwards Vodafone and then we released because those numbers are looking much better so to answer question, here is the math, if you have roughly about a million plus subs at an ARPU of Rs.15, we are getting an 18 Crores top line. If we have about 3 million subs at a ARPU Rs.15, then we are getting 45 odd Crores topline, so when we go to 8 million and put the ARPU in Rs 20 to Rs 25 that is only really breakeven with the 140 Crores topline number. Added to that of course is the non-telco deals subscriber base that we will get in the international subscribe base that we get. So that is the way it will pan out. So I think this year it has been grow the first year that we are out in the market, our losses that we have projected will make lesser loss than that and therefore the business plan in the tail end is looking, but both the topline and the cost base will be lesser than what made earlier projective.

Balaji Telefilms Limited C-13, Balaji House, Dalia Industrial Estate, Opp. Laxmi Industries, New Link Road
Andheri (West), Mumbai 400 053 Tel: 40698000 Fax: 40698181/82/83 Website: www.balajitelefilms.com
CIN: L99999MH1994PLC082802

Miten Lathia: Sure. So just to get the right, if the customer signs up for an annual plan of Rs.300, you booked Rs.75 every quarter or Rs.8.5 every month, how it would be?

Nachiket Pantvaidya: It is pro-rated. Correct, I think monthly more than.

Sanjay Dwivedi: Yes, it is monthly.

Miten Lathia: It is pro-rated by the number of days or the month?

Nachiket Pantvaidya: We will book Rs.25, Rs.25, and Rs.25.

Miten Lathia: Okay.

Nachiket Pantvaidya: So if he cancels to gets back on the month pro-rate, so subscriber books in month one cancels even on the 28 day, even have to pay Rs.25 and 275 get back that is the logic.

Miten Lathia: We do have a cancellation option, is it?

Nachiket Pantvaidya: Yes.

Miten Lathia: But that will not be the right way to do it, is it because if someone signs up 01.06 and bring views on 01.06 itself and then you end up paying back whatever

Nachiket Pantvaidya: Yes, Miten actually I think the customer in that sense take as subscription watch for like two days then ask for refund back, if they do that we will take to this two days Rs.25, so good rate for us.

Miten Lathia: Okay. Fine. Got it. Thank you.

Moderator: Thank you. We have the next question from the line of Rajesh Agarwal from Moneyore Investment. Please go ahead.

Rajesh Agarwal: My question to the earlier participant, Q2 to Q3 subscription did not go up single, it should have gone away 10 to 20 lakh whatever, what was the reason for not going up, one is the launch which got delayed and what may they, they have any other reason?

Nachiket Pantvaidya: Yes. The telco deal really started November mid or end, then secondly the content launches are happening now. Also if you see we actually picked up volumes only in the last half of the quarter or actually the last month of the quarter, so that is why it is zero, it get recognized that, so somebody who pay subscription say from Vodafone in December 15, so his half amount will only will be taken.

Rajesh Agarwal: So it does not mean that old subscribers have left or they have cancelled?

Nachiket Pantvaidya: No. From the three-month pack, we have churn rate of about 10%-15% dropping off.

Rajesh Agarwal: What is the rub-off for this quarter suggest in spite of launch in telcos there is a substantial movement in the subscription?

Nachiket Pantvaidya: In Q3?

Rajesh Agarwal: Q4?

Nachiket Pantvaidya: In Q4, Q4 we are close to 1 million already, as I also said in the remark, we will hit a million, will be the number one paid platform in India.

Rajesh Agarwal: This is a subscription based?

Nachiket Pantvaidya: Subscription base, yes only. That subscriber, 1 million subscribers. We already have 12 million downloads for the free guys are about 12 million to – and right now it is closed to 15 million.

Rajesh Agarwal: Sir second question when you told that losses will be lower, is the original content cost which we invested earlier in the starting of the year has come down Rs.35 lakh requisite or it was 50 lakh earlier which we thought, what is the reason for the content cost coming down?

Nachiket Pantvaidya: See basically we were thinking we will launch 30 shows odd in the year and we will now launch only 18 to 19 shows in a year, so that has made the difference.

Rajesh Agarwal: That is okay Sir, but content cost per unit has come down earlier we had invested 50 lakhs and has come to 35 lakhs, both?

Nachiket Pantvaidya: You are asking reason for the lowering of the cost that is because instead of 30 shows we are doing only 18 or 19 shows.

Rajesh Agarwal: That is understandable. The contents have been 18, we just thought for the 20 shows it would be 50 lakhs, is there something like that?

Nachiket Pantvaidya: It has not going down.

Rajesh Agarwal: It is not going down. Okay and Sir my next question is from the TV side, what was the reason for that number of hours coming down because when I read the Levers, they will spend more on ad and in fact we told that they are increasing their content from 23 hours to 32 hours, what was the reason for TV content coming down?

Nachiket Pantvaidya: Sorry, who is increasing?

Sanjay Dwivedi: TV content actually when you compare quarter-on-quarter, last quarter there was an afternoon slot show on Star Plus which came to an end and also on Star Plus the show called Chandra Nandini came to an end. So two shows coming to an end in a quarter led to the call, in terms of what you saying that we and Star and all of them are saying that we are making original content that is what we refer to that most IPL, you will see as going back into our usual run rate.

Rajesh Agarwal: Okay and we will able to maintain the same margins, which we have been doing in this quarter?

Nachiket Pantvaidya: Yes. This part of margin has been very good.

Rajesh Agarwal: We can maintain going forward.

Sanjay Dwivedi: Yes. Only you get the new show gets launched there can be a little bit dip in the operating margins otherwise we are quite sure up maintained the margin.

Rajesh Agarwal: Okay. Are we focused for more of prime shows now? This may be the reason for the margins?

Nachiket Pantvaidya: No. One of the reason for the margins is we are left with long running successful shows and as you when the show enters its second, third year, the margins improved simply because of economies of scale and because of efficiency in production, so we are left with a bunch of shows which are long running now, which is very good and the second reason that we foresee improvement of margins going ahead is that as we are – this last has been good in terms of hits, so we are three among the top five shows, so I think we will be able to get a good price realization from our broadcasting partner so that track records for hits has gone up.

Rajesh Agarwal: Okay and the last question is the cash, which is lying on the balance sheet, which we have, part with the mutual fund so how much yield we are getting on that?

Sanjay Dwivedi: Around 7.5%-8% right now.

Rajesh Agarwal: Okay that will come as other income.

Sanjay Dwivedi: Yes.

Rajesh Agarwal: Thank you Sir.

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

Rohit Dokania: Thank you for the opportunity. Just two to three questions from my side, one is can you talk about the consumer behavior whether it is different from the person who comes through the app and who comes through the telco and what is the main difference over there?

Nachiket Pantvaidya: I mean there is definitely a difference set of consumers that come on the app and subscribe to the annual pack versus people who come on telco, so let me put it this way. When you put of the Test Case or Bose, it immediately attracts the annual pack-paying consumer on the app. So those shows do well on the app whereas shows like Ragini MMS, Karle Tu Bhi Mohabbat, which are closer to Indian television do much better on the telco and the age here is also little younger, so typically on the telco we are seeing action between 18 and 35 on the app we are seeing 20 to 40, about 60% of the audience. The second thing is the telco audience or the telco consumer who comes is more widespread in Tier 2, Tier 3 cities and our correlation is that he or she is a prepaid customer, then typically on the app we are getting lot of traction in the metros and in the Tier 1 city.

Rohit Dokania: Okay and is there any difference in terms of time consumption as well?

Nachiket Pantvaidya: No. Actually, the time consumption is very, very good on telco for two reasons. One is of course we are getting the content free and secondly is getting the Internet free also. So it is a boom time for consumers.

Rohit Dokania: I understand. Okay. Thanks. The other question was – fairly good sort of a cash balance and from the commentary throughout the call it appears that you are quite focused on sort of achieving the breakeven and all sort of probably earlier than expected and at a sort of lower cost cash burn, so I was just wondering why not probably sort of invest more when already the SVOD model in India is in the sort of formation phase, why not sort of invest initially, so that probably when into the market sort of actually get swarmed, we will be one of the bigger beneficiaries?

Nachiket Pantvaidya: Correct. So what we are doing is our investing very heavily in content, a lot of the cash that we have in our balance is already committed to digital content. We have not just played out on the app till their shows then we can get the money back. So the investment actually is sit on our balance sheet and we will keep making shows and we will keep making shows and keep them an inventory. If we feel there is a tipping point where we can hit a large number like 5 to 6 million next year then we will role out the ammunition. So it is not at we are not inventory, we are just prudently paying it out of the app to match our revenue expectation.

Rohit Dokania: Okay. Fair enough. Just one last question for Sanjay, Sanjay, can you talk about what exactly is the elimination of 20 odd Crores for the nine month period that is there in term of the legal entity performance on the presentations, slide #16?

Sanjay Dwivedi: See one is cross charges of key employees to all because between these entities that gets knocked out and there will be other recoveries between two entities. So mainly it is arising out of staff cost.

Rohit Dokania: There is no cost of content production, which let us say these standalone entity would be driving for all?

Sanjay Dwivedi: That goes under production cost. I am talking about the line item, which actually impacts, which is your overheads.

Rohit Dokania: Okay. Sure. I will take this offline. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Neeta Khilnani from B&K Securities. Please go ahead.

Neeta Khilnani: Thank you for the opportunity. I was just trying to understand since the consumer can watch your series on free in a telco platform, which will now be across all major telcos actually, would you at some point contemplate making your platform as well free and try out the ad model instead of subscription model because that sort of keep you on in balance with the other platforms as well.

Nachiket Pantvaidya: So to the ad model no, you will be make the apps again no because remember these telco deals are only India specific. There is also an international market that we address. The thing is I think we have built an app to create a good app experience and that app experience on long-term versus some thing that attract people to be app, so these people find that the UI and US from our app is better than Vodafone play and they prefer to watch it here. Always remember our pricing is Rs.25 a month. So we are less than Rs.1 a day. So our pricing is it is almost like free. So we do not have that much of a gap between the app and Vodafone play. While you may think free zero, but it is near zero, we are nearly at 80 paisa per day in terms of where we are charging. So there are consumers who prefer to watch it on our app, we did more features importantly the download feature is a defining feature on the app. So if you go to Vodafone Play and to answer your question and what is so great about then paying this 25 bucks on the app. If that, if you want to go on the plane and watch, it is easier to do it on our app. You cannot do it on the telco.

Neeta Khilnani: Second if you can help me with the inventory position in all, as well as in the television business because I believe four shows are setting on the inventory television as well?

Nachiket Pantvaidya: Sorry, inventory position in television. Inventory on television there will be some episodes which are short-term, what we mentioned about the four shows what we mentioned four shows, they are in discussion with the channel and you will eventually once we sign a contract start making this. In our business we always keep some episode in the back hardly said if you not more than and that is what it is sitting an inventory.

Nachiket Pantvaidya: And what will that be on all?

Nachiket Pantvaidya: The inventory on all today is about five or six episodes that is half a series, the moment the series is made we launch it, this will change in the next two years, max but right now we are just catching up the projections, so whatever we make the kind of launch in the next 10 to 15 days, it is hardly anything.

Neeta Khilnani: Okay. Thank you.

Moderator: Thank you. We have the next question from the line of Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Firstly on the content cost what is that trend you see here now that the number of episodes you are looking at lower and the marketing cost will also be lower, so are you looking at a more richer content going forward and scaling up your cost for episode?

Nachiket Pantvaidya: No, not really. The cost per episode we want to control at 35 average for 22 minutes, so we do not want that parameter to go away. However to achieve that average, we might make some shows at 10 lakh and some shows at a Crore an episode. That could happen so that programming mix is something that we are working on. What we are finding is that our consumer section seems to be divided into two India's. One India, which was find a more urban and the other India, which is more mass and therefore, we are creating for these two separate kind of content. For example, Test Case and Bose will be urban and urban India that is why we are getting the numbers from, Dev DD spans more urban and mass and KPDM and Naagin was typically mass India.

Devang Patel: Right. You will be getting one million customers soon what would attentively be the mix between own app and telco mix?

Nachiket Pantvaidya: I think this will just be 60:40, 60 telco.

Devang Patel: Okay. You said the ARPUs for telcos are good, are they similar to what we get on the app?

Nachiket Pantvaidya: Depends on which telco we are talking about. The usage linked also.

Devang Patel: Okay. The 1.1 Crores revenue book last quarter could you give a breakup between what was app and what was telco?

Nachiket Pantvaidya: Well I would again telco would not be a big part of that revenue because that was must be 20%-30% only, not more than that for telco. The rest will be app.

Devang Patel: Okay and the rate at which the deal with the telco gets revised was not very clear from what you are saying earlier, so as you put more shows does it get revised or once you hit certain number of eyeballs that gets revised, can you just speak on that?

Nachiket Pantvaidya: Both actually to be very honest we have not set these terms out in our contracts, and these are free flowing, we can negotiate this freely when we feel that they are lot of good thing going. When we started this business because nobody doing these telco deals, no body having any perception of distributions, so the deal that we have done remember is just nine months of operation for us, we have not even completed a year, out of which the telco deal one deal that we have is being about 2.5 to 3 months, the other one is from last January 26 that is Jio, we are yet to start on Airtel. What we feel is that the during our partnership we do not want to just start a deal and start renegotiating because we have a hit, it does not work that way, I think we want to create a library of it and then look for a jump that helps our partner as well as us that could be going forward, so there are no milestones saying at every quarter we sit and renegotiate.

Devang Patel: Right Sir. That is all from my side. Thank you.

Moderator: Thank you. We will take one last question from the line of Nitesh Kochar, an Individual Investor. Please go ahead.

Nitesh Kochar: Congrats guys, I think you are doing a fantastic job and we already hope that your shows. I have two questions, you mentioned that you are already like one million subscriber telco and own app put together, by the end of this year, what is the best expectation like what can this number be by the end of 2018, this is number and how do you reprise the ARPU over the contracts like if you get the level done at 300 bucks and say suppose by the end of this year we have 40 shows then guy who subscribe it 25 bucks and the guy who is coming at 40 bucks, will you pay the same price or will you pay the higher price, how would you maximize the ARPU?

Nachiket Pantvaidya: App pricing is not going to change. App pricing is fairly constant at least for the next 12 months. But the telco pricing consumer does not care like consumer will be watching it at whatever price the telco charges, it is free right now, so our deal with the telco, which in keep, negotiate. What is your first question?

Nitesh Kochar: One million subscriber paid subscriber, you are already in so by the end of this year?

Nachiket Pantvaidya: End of this year means another 45 days how many will you acquire is what you are asking.

Nitesh Kochar: No, I am saying by the end of current calendar year we should be at around two times or 2.5 times.

Nachiket Pantvaidya: End of the calendar year.

Nitesh Kochar: Yes.

Nachiket Pantvaidya: End of the calendar year we should be at around 2-2.25.

Nitesh Kochar: Okay. Great subscriber.

Nachiket Pantvaidya: Yes only paid, we are already 12 million free subscriber.

Nitesh Kochar: Sure and for the just to reiterate for 140 Crores budget of the cost, you said the breakeven is 8 million paid subscriber, right?

Nachiket Pantvaidya: Yes.

Nitesh Kochar: Thank you very much and all the very best.

Moderator: Thank you. Ladies and gentlemen that was the last questions. I would like to hand the floor over to Rohit Dokania for closing comments. Please go ahead Sir!

Rohit Dokania: Thank you everyone. Karthik, Nachiket and Sanjay who ever want to make any closing comments.

Sanjay Dwivedi: We would just like to thank everyone. If there are any further questions, please feel free to reach out to us. We will always around to answer.

Nachiket Pantvaidya: And please watch Karle Tu Bhi Mohabbat 2 that has launched today, it is a fantastic show especially for it is a Valentine special, so please watch.

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

(This document has been edited for readability)