



“Balaji Telefilms
Q3 FY2019 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2019 results of Balaji Telefilms hosted by Emkay Global Financial Services. We have with us Mr. Sunil Lulla, Group Chief Executive Officer, Mr. Sanjay Dwivedi, Group Chief Financial Officer, and Mr. Nachiket Pantvaitya, Group COO and CEO, ALT Digital Media Entertainment. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harsh Kundnani of Emkay Global. Thank you and over to you Sir!

Harsh Kundnani: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to the management for the opening remarks. Over to you gentlemen!

Sunil Lulla: Thank you. This is Sunil Lulla and good afternoon everybody. Thank you for joining us for our Q3 FY2019 earnings call. I hope you had the opportunity to review our earnings release. So, while we are in 2019 the discussion is about the last quarter, which ended in December 2018, we had a splendid quarter and we hope to take this momentum into this New Year, which is 2019. Our TV business continues to be the number one content creator for Indian primetime. We ended the year with a 16% market share in primetime ratings. This is more than twice that of our nearest competitor and more than the production houses, which are ranked two and three. We have three of the top five shows for the entire year including the number one weekend show and the number one and number two daily shows, which were produced by Balaji Telefilms. Our content entertains millions everyday and helps broadcasters create an impact in their business. This quarter, which closed in December 2018, we produced just under 200 hours of content at an average realization of nearly Rs.40 lakhs or 4 million rupees an hour. Our average revenue per hour has improved 18% when compared to a year ago, which is helped by the change in our programming mix, which has seen more weekend programming, which tends to be higher priced. We currently have seven shows on air and we should be in a position to announce a few more additions in the coming days. Our TV business is as always getting stronger and predictable and the coming months look good operationally.

Moving to our movie business, we had no releases in the last quarter, which ended in December 2018, but the team has been very busy preparing for upcoming releases. We have signed a few exciting and quirky movies, which includes Mental Hai Kya with Kangana and Rajkummar Rao, Jabariya Jodi, a film set in small town India starring Sidharth Malhotra and Parineeti Chopra and Dolly Kitty Aur Woh Chamakte Sitare, which sees Alankrita Shrivastava teaming up with Balaji after the phenomenal success of Lipstick Under My Burkha and there is Ayushmann Khurrana starring in Dream Girl in addition to other projects.



In line with the operating strategy on films, we have presold certain rights of these films thereby locking in the cost of production of these movies. Our capital commitment to the movie business remains limited and we follow a portfolio approach wherein capital is recycled within the business.

Our digital B2C business ALT Balaji ended this year as India's number three subscription video on demand as per App Annie ratings, which measures OTT app subscription revenues. This continued growth in consumer adoption is the validation of ALT's unique clutter breaking content as well as having a product that is affordable and made for India pricing. Our digital footprint continues to grow and as of date we have ever subscribed base of 13.1 million paid subscriptions. This has grown 56% from 8.9 million when we last reported and in the last few months we are witnessing an interesting trend of consumers downloading and paying for the app directly in addition to being available on partner telecom networks. Our belief is that consumers have appreciated ALT Balaji's unique online digital content and are willing to pay for a better experience and are paying for it directly. On the content front on ALT, we added six shows this quarter and thus we have one of the largest collections of original exclusive content at 33 shows currently. We continue to see good consumption of our content with around 54% of the content consumption coming from the top 50 cities in India and the balance from rest of India.

In terms of watch time or viewing time, we maintain an over an hour of viewing time per day per subscriber, which is phenomenal. We understand the nuances and the changing taste of Indians and use this to build up content pipeline. Today our committed pipeline is close to 60 shows and these should be live on the app over the next 18 months.

Overall the OTT in this category continues to grow strong and the habit to pay for content continues to develop. We firmly believe that consumers in India are receptive to pay for quality and unique content and ALT Balaji is leading initiative in developing this market. So that summarizes our three lines of business. We have a great and strong positive outlook. I now hand over to my colleague Sanjay to give you a quick update on the key financials for the quarter.

Sanjay Dwivedi:

Thank you. I hope you all have seen the results presentation available on the website. The key figures on a standalone basis are as follows; Q3 FY2019 revenues at Rs.111.5 Crores comprising of Rs.103.6 Crores from content production and Rs.7.7 Crores from movies. On a nine-month basis, FY2019 revenues at Rs.358.2 Crores, Rs.259 Crores from content production and Rs.98.1 Crores from movies. Gross margin in TV has improved to 23% on account of better operating efficiencies and cost control. As explained earlier, our approach has been to launch high impact initial episodes at launch of a show and within a period of six to eight weeks we rationalized the expenses significantly resulting in better show profitability. We have done this for several years and this quarter too we are seeing the playing out. Q3 FY2019 EBITDA at Rs.13.2 Crores against Q2 FY2019 EBITDA of Rs.3.8 Crores, a significant improvement driven by a better gross margin and lower marketing spent in the movie business. Net profit after tax at Rs.12 Crores for the quarter and Rs.17.9 Crores for nine months FY2019.



Coming to the movie business, we invest a certain amount of capital into the business and money is rotated within the business depending on the lifecycle of the movie projects. Our capital employed in the movie business has been close to Rs.100 Crores and we maintain that level of exposure. Our slate for FY2020 has four movies and the most important development is that we have secured the cost of production for these movies by way of pre-sales. ALT Balaji revenues were lower this quarter as compared to the previous quarter and given some large B2B deals were booked in the previous quarter. This quarter we have seen a 26% increase in the direct subscription revenue. The added benefit of more direct subscription is also our visibility for the next few months is better given customers tend to pay for a quarter on the app versus monthly payment via our partners. In comparison, our unbilled revenue at the start of January 2019 is 56% more than the number at this start of October. In line with our focus on growing B2C subscribers, we continue to invest in B2C consumer acquisition. Overall, we will continue to invest in ALT Balaji, which will create value for the group, generates free cash from the TV and movie business that will help sustain the growth. Our investments in mutual fund units across the group on December 31, 2018 were at Rs.323 Crores. 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 Rajesh Agarwal from Moneyore Investment. Please go ahead.

Rajesh Agarwal: What was the reason for the ALT Balaji revenue being lower compared to last quarter and second question is we talked about unbilled revenue, how do we calculate that unbilled revenue?

Management: Rajesh I will just take the second one of our unbilled revenue, so basically accounting wise we take only that much of revenue for the period, but you could have paid for a yearly plan and say for example you paid Rs.300 today for this quarter we will only take proportion of it, so the remaining money carried forward as unbilled. In terms of the fee as quarterly revenue being lower than last year as we explained last time, this is the business, which have some B2B deals, some B2C deals, some partner deals, I think the key messages are direct subscriptions continue to grow strong and if you see the total number of subscription sold from 8.9 to 13.1 I think that is how you should look at it versus our monthly or a quarterly actual revenue number.

Rajesh Agarwal: So B2B billing we will do it on a lump sum basis?

Management: No. It does not work like that. B2B each agreement is unique to the extent that whatever that agreement has as a deliverable we account for the revenue for that quarter.

Rajesh Agarwal: Sure Sir. That is the reason for revenue being lower than the last quarter?

Management: Actually, the B2B revenue is lower, B2C revenue is significantly higher this quarter



Rajesh Agarwal: For this third quarter?

Management: Yes.

Rajesh Agarwal: Thank you.

Moderator: Thank you. We have the next question from the line of Ritwik Seth from Deep Finance. Please go ahead.

Ritwik Seth: Hi good evening Sir. Just a couple of questions. Firstly, if I see from Q1 FY2019 in the presentation we have had monthly active subscribers at 2.1 to 2.3 million subscribers, so is it the numbers have been flat for the first three quarters of FY2019?

Management: Ritwik what are the two-point number that you indicated again?

Ritwik Seth: Monthly active subscribers.

Management: MAU?

Ritwik Seth: Yes. MAU.

Management: No. Monthly active subscribers 2.1 at the end of Q2, which has doubled to 4.2 in this quarter.

Ritwik Seth: Sir, Q3 December 2018 monthly active subscribers you are saying is 4.5 million?

Management: 4.6. Correct.

Ritwik Seth: 4.6 million. Okay sure and on these 13 million subscribers, is it safe to assume that because of the couple of shows that we have launched that must have contributed to say 90% of the increment?

Management: It only shows that people are watching us new shows have contributed and old shows have contributed, as always the old shows have good share also, the library products are also doing well for us, so it is not just new launches, and as our library is keeping on growing that is also adding to the fact that we are getting increased subscription and we hope to hit a tipping point in the next 12 to 18 months for that.

Ritwik Seth: Okay sure and what is the plan for ALT in FY2020, we have stated 100 to 130 odd Crores of investment, are we on track or like to change something?

Management: We are on track, the two parameters that we are actively toying with is one is how do we improve the mix of direct subscribers versus our B2B subscribers and that number to be much higher than what it is today that is one. Secondly, we are now at a process where we are confident that we will do about



24 to 30 shows in a year plus three categories of shows, so that is either male focus shows or female focus dramas. We are reinforcing that content strategy and our focus on international, which will be even more as we go ahead as our library builds up.

Ritwik Seth: What is the total amount that we have invested in ALT till date?

Management: We have done an equity infusion of around 450 Crores, we still have over 100 Crores of cash residing on to the balance sheet.

Ritwik Seth: Okay Sir. We have invested 350 Crores?

Management: Yes.

Ritwik Seth: Thank you and all the best.

Moderator: Thank you. We have the next question from the line of Amit Mehendale from Robocapital. Please go ahead.

Amit Mehendale: Thanks for the opportunity. Can you provide a split of 8 Crores ALT Balaji revenue to B2B and B2C and also overall it will be great if we could get some insight into the number of paying customers for telecom as well as direct and the ARPU for each of them?

Management: All of these are in confidential agreements I am sorry I cannot kind of reveal ARPUs out to you. These agreements as you can understand are intercompany agreements and are confidential. Suffice to say that there has been a considerable growth in the direct subscription numbers for us. We are seeing nearly 60% to 70% growth over the last quarter and that is about what we can reveal, of course we cannot reveal the number of telco subscribers, we cannot reveal those numbers on ARPUs, etc. because we have those agreements signed.

Amit Mehendale: Right, I appreciate that. Is it possible to reveal the B2B and B2C split in the 8 Crores avenue?

Management: I think at this stage, we are a little sensitive about that, so you must appreciate that we will kind of recheck on that question right now?

Amit Mehendale: Right sure. I have just one followup on this, see typically for tech products daily active users and monthly active users are key numbers, is it possible for you to share those numbers, how they are trending?

Management: So far it is 4 to 4.6 million monthly active users as of December 31, 2018.

Amit Mehendale: 4.6?



- Management:** Yes, and I think of daily our sense is unlike an advertising like kind of products we do not really need consumers to come in everyday depends on when we launch shows there will be viewing and users, so I think in our sense the monthly active user is a better matrix to look at unlike our daily active users.
- Amit Mehendale:** Right. How do you see that is trending on a quarter-on-quarter basis, what is typically our growth rate like 40% to 50% growth rate?
- Management:** A gentleman asked a question before you. The end of Q2 was 2.3 and we have doubled that to 4.6.
- Amit Mehendale:** Right. I have one last question, is there any plan to add AVOD apart from this SVOD model?
- Management:** No.
- Amit Mehendale:** Okay. Thank you. Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Rajesh Agarwal from Moneyore Investment. Please go ahead.
- Rajesh Agarwal:** For the ALT Balaji, we have guided 60 Crores revenue this year, so now we have already run 28 Crores, can we meet that?
- Management:** Yes, at the end of the year we will be probably slightly shorter or just about there.
- Rajesh Agarwal:** Sir, have the strategy changed, now we are targeting for more B2C customers rather than B2B?
- Management:** It is not a full shift in strategy, but over the last six months the confidence that the direct consumer base is consuming us is willing to pay Rs.300 a month has enabled us to start focusing our investments and marketing spends to attract that a little more.
- Rajesh Agarwal:** Sir, the difference between the ARPU between B2B and B2C is huge, is it substantial?
- Management:** Yes, there is a difference between the ARPUs in both and the difference will be about 30% to 40% at this stage.
- Rajesh Agarwal:** Have you seen that whenever we are launching new shows that the subscription addition is more subscribers?
- Management:** Well, there are two kinds of additions that happen. One is of course people who come to see the new show, but a lot of subscribers also get added when we try and go to past subscribers, who have dropped, who have churned out to whom we get also. There is addition of two types of subscribers entirely fresh and people who have churned out of our app we will get them back again.



Rajesh Agarwal: What is the retain ratio?

Management: Right now, anywhere between 50% and 60%.

Rajesh Agarwal: Okay, do we have more quarterly subscribers or half yearly or yearly?

Management: More quarterly subscribers, 70% is quarterly

Rajesh Agarwal: The last question Sir, has the TV business matured now, the shows, which are on the air, has they matured now?

Management: Yes, if you recollect in our first quarter we were just launching new shows. Quarter onwards the TV business is in a steady state and we hope to achieve the run rate of this quarter and improve it about 5% to 10% next quarter and keep at that then throughout. So yes, it has gone through that stage and come to a maturity level.

Rajesh Agarwal: In terms of EBITDA margin, has it peaked? No? In terms of gross margin or whatever?

Management: No margin, it would not peak because I think post IPL we will see a lot of activity and I think it is unfair to say that any margin is peaked in the market when we are delivering more and more hit content and earlier we have got 16% of the ratings of primetime and as our shows runs their course of length, the margins will only improve.

Rajesh Agarwal: Sir, the shows, which are like for example Dil Hi To Hai, which is on Sony, and which is on our app, do we have a lesser cost on that or do we get lesser realization?

Management: Well, actually the Dil Hi To Hai that we launched this month was made just for digital, it is not actually on Sony. We have started off on Sony and got discontinued from Sony and now we have made a fresh batch or rather season two of the Dil Hi To Hai just for the digital app.

Rajesh Agarwal: Thank you.

Moderator: Thank you. We have the next question from the line of Ritwik Seth from Deep Finance. Please go ahead.

Ritwik Seth: Thanks for the followup and sorry to harp on the MAU thing data point, so starting if I see on slide 2 we have mentioned that monthly active users stood at 2.6 million versus 2.3 million and there is an asterisk which says, user and show count as on February, 6, 2018 versus November 14, 2018, so I am a bit confused, I am lost here that whether end of December 2018, the number was 2.6 million and which is the same, so can you help me with that please?



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- Management:** I will just clarify, this 2.3 million MAU number was as of November when we last spoke on the quarterly call, that number as of February 6, 2018, which around date we are reporting has doubled to 4.6 million.
- Ritwik Seth:** Okay and December would be?
- Management:** I do not have December, I have given you the latest number right, but if you want I will share it later on and you will get it off line.
- Ritwik Seth:** Okay fine. Thank you that is helpful.
- Moderator:** Thank you. We have the next question from the line of Yogesh Kirve from Batlivala & Karani Securities. Please go ahead.
- Yogesh Kirve:** Hi, thank you for the opportunity, so I understand we are focusing more on the B2C part of the business, just to understand what is happening on the B2B side, is it that we have not renewed some deals or we are not promoting our shows so much on those platforms, so why would revenue should decline?
- Management:** That is what the case, one significant data point for you to mull over is the fact that Airtel has now put all its content behind the pay wall, so that earlier they used to give it out on free, so the environment conditions in the B2B especially the telco's they also cannot keep giving away things free endlessly, so one of the significant moves that one of the large players in the market today Airtel is now what the content we ended up pay about. Effectively, what we are seeing is that, that also becomes the case when we will have to go for higher ARPUs in our next contract renewal, so that is really one of the significant pointers that crunches the market for B2B.
- Yogesh Kirve:** So, is the thing like this, nothing from our side we are doing differently because of which B2B should come up right?
- Management:** No, we are doing things differently on B2C. We have launched more number of shows and we are investing in marketing for B2C, but on B2B we have not changed anything except this one small factor, which will probably be a bigger factor in the next 12 months or so as people are not able to monetize the event, might not give away content free. Yogesh, just to add in the B2B, I think what we have answered earlier to someone else's question, the way we account for some of this revenue is heavily depending on the nature of contract that we enter in with a B2B player so in Q2 particular contract led to us recognizing some more revenue as compared to the contracting Q3.
- Yogesh Kirve:** Okay. Secondly on the marketing expense, so we see in ALT Balaji, we are seeing this pickup and I understand we are focusing more on B2C, so is this sort of run rate that we should expect over the coming quarters?



- Management:** See basically let me again paraphrase that a lot of marketing spends went up because we had a hit in our hands So when you have a hit on your hand you tend to pump it more, so that one that really broke through for us meant that post launch we also marketed it well to acquire direct consumers, so in the creative business you cannot probably, it is not like cement manufacturing where you see there is a trend. If we are sensing a hit, we will probably double it or go for a higher acceleration there and I think that is what going to happen throughout the year. Having said that, of course our strategic focus is that we will start moving towards directly acquiring consumers and therefore some of those spends will go that way, but if you have an exception in hit that is the time to milk it and get your subscribers.
- Yogesh Kirve:** Sure Sir. That is all for me and all the best.
- Moderator:** Thank you. We have the next question from the line of Amit Mehendale from Robocapital. Please go ahead.
- Amit Mehendale:** Thanks, I have one followup question on the revenue, if I look at nine-month numbers for ALT Balaji and I add up to your last quarter revenue of 14 to 15 Crores to that number, I still end up close to 40 to 44 Crores kind of revenue topline for the year, which would be significantly lower than the 60 Crores guidance that was given, can you please throw some light on the likely trends, how we will end up?
- Management:** No. I think one is that the quarter is we are progressing through this quarter, so it will be risky for us to say that we would not have another 16, 17, 18 Crores quarter also. I do not know how that will go. We are still in the middle of this last quarter, so we will reserve judgement on that, but I think one of the important things that we are kind of just step back a little on is international. We had expected some to come from international, which has not come, if you recollect a couple of calls although we said that we have had some strategy, but that strategy is not probably playing out the way we thought but let us wait for March 31, 2019 and then we will know how this also goes.
- Amit Mehendale:** Sure, thanks.
- Moderator:** Thank you. We have the next question from the line of Rajesh Agarwal from Moneyore Investment. Please go ahead.
- Rajesh Agarwal:** So as a breakeven goal post for ALT Balaji shifted by another one year because if the marketing spend is going to go?
- Management:** No. there is no shifting of goal post as of now. We are running a successful business just for your reference, we are the second highest grossing app on the android app store and the third highest on the IOS app store as of last month in terms of OTT players, so we are set to become the number one



player in India in the next two or three quarters and we are in a very, very happy position, so I think we are not changing our goal post.

Rajesh Agarwal: The cash on book will be sufficient to meet the cash for next two years?

Management: Yes, it will be sufficient while we said that we put in 350 Crores. You must understand that lot of cash that is there in production, in production contract that has been executed and they will also get accrued when they are actually put on air, if you see the two content cost across the two years that is not equal to 350 Crores yet.

Rajesh Agarwal: When we are talking about 60, we are already at 33 new original shows, 27 by another one year or 18 months?

Management: Yes. We hope to go roughly at the rate of minimum two shows in a month.

Rajesh Agarwal: So, the content cost will be around the same.

Management: Yes.

Rajesh Agarwal: Okay. Thank you, Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question and I would like to hand the floor back to Mr. Sunil Lulla for closing comments. Please go ahead Sir.

Management: Thank you. I think it is important to note that our TV business really continues to perform and it supports the entire company as such. Our movie business is very secure, we have very interesting movies out there, the cost of production of all these movies are already recovered because of the deals we have done. We are investing in ALT and we are investing in our marketing to grow our subscribers where we have seen phenomenal results in the last Q1. So, I think with that close of 2018, we look forward to a good performance in 2019 and thank you for staying in touch with us and for sharing information about us.

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

(This document has been edited for readability purpose)

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