"Balaji Telefilms
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Balaji Telefilms Q1 FY2020 earnings conference call, hosted by ICICI Securities. As a reminder all participant lines will be in the listen mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Thank you and over to you Sir!

Sanjesh Jain: Thanks Mallika. Good afternoon everybody. On behalf ICICI Securities I am pleased to welcome you all for Q1 ended FY2020 earnings call for Balaji Telefilms and thank the management for providing this opportunity to us. We have with us the top management of Balaji Telefilms, Mr. Sanjay Dwivedi Group CFO and Mr. Nachiket Pantvaidya, Group COO and CEO, ALT Digital Media Entertainment. I would now like to invite Mr. Nachiket for his opening remarks. Over to you Sir!

Management: Good afternoon. Thank you for joining us for our Q1 FY2020 earnings call. I hope you all have had a chance to review our earnings release published on Friday. We have had a strong start to the year and the focus has been on securing the business and making it profitable on a consolidated basis. Recently, the Indian economy seems to be facing some headwinds and given the uncertainty in the environment it becomes more important for us to secure the business. The two main deals in the movie business and the deal with ZEE5 are steps in this direction. We will talk about this in more details shortly.

Let me start with an update on the TV production business. We continue to drive the entertainment quotient in India through our daily TV shows that has highest rating contributors. We have 18% market share in prime time ratings which is still more than 2x of our nearest competing production house and more than production houses rank two and three combined. Our TV business continues to be the undisputed number one for content creation and the new tariff order on the pricing of TV channels coming into effect as further strengthened the need to have strong compelling content. This quarter we produced just under 200 hours of content, 195.5 hours at an average realization of Rs.36 lakhs an hour. Gross margin improved for 4 quarters in a row and was at 30.3% driven by a strong focus on minimizing cost on usual launches.

Looking at the programming highlights in this quarter, our extremely popular show Naagin 3 came to an end as the show takes a break and gets ready for the next season. Naagin 3 was replaced by Kawach Mahashivratri which is doing well on the weekend slot. In addition to this we launched a new show Bepanah Pyar, a romantic daily drama on Colors.

Moving onto the Star network. The two long running shows Yeh Hai Mohabbatein and Kasauti Zindagi Kay remain slot leaders. Finally on the Zee network Kumkum Bhagya and Kundali Bhagya, the number one and number two shows on the channel as well as on prime time Hindi GEC and continue to do extremely well. These two shows combined account for nearly 40% of the channel's rating points. Daayan a mytho fiction show on &TV came to an end in the quarter and we expect to replace this with a new show called Haiwaan from the Zee network. Overall the TV business remains on a solid foundation and will contribute significantly to the earnings for the year.

Moving onto our movie business, we entered into an agreement with Pen Marudhar for the sale of theatrical distribution rights for our next four movies. In addition to this, the satellite digital and music rights for these movies were sold to Zee Entertainment earlier in the year. Following the sale of these rights, the company has recovered all its costs associated with the movies by way of minimum guarantee and is well on its path to deliver a sizeable profit in the movie business. Our capital commitment to the movie business remains limited and we follow a portfolio approach wherein capital is recycled within the business.

Moving onto ALTBalaji, the business continues to expand aggressively and helping us established ourselves as one of the front runners in the digital video streaming category. We have one of the largest multi-episodes, multi-season exclusive original Hindi library with 42 shows and we had subscribed base and ever subscribed base of 27.3 million paid subscriptions and a current active subscription base of 5.1 million. This was split at 20% direct and 80% through partners. We continue to see good traction on the direct subscription front and are averaging between number three and number four across iOS and android. In spite of having one of the lowest, but most accessible subscription prices in the country, we are still number three, number four.

We entered into a content alliance with Zee which would see us co-create over 60 originals that both partners will use to grow the subscription video on-demand business. As part of this, new contents will only be available behind a pay wall and this will help us transition from a multiple partner free environment to a single partner paid environment. Deals such as these allow us to get our committed revenue to its content creation while allowing us simultaneously to grow our direct subscribers. The partnership would allow us to conserve our cash burn by way of co-production and move towards faster breakeven on an EBITDA basis.

The first set of shows as part of this arrangement will begin streaming very shortly. To wrap up, we have a very good foundation for the year. The TV business will continue to remain the cash cow, the movies will deliver very strong profitability on the back of the sale of rights and ALTBalaji is moving quickly towards breakeven given a large portion of the content cost are now recovered. We also continue to drive direct subscriptions on the app. Overall we hope to breakeven on a consolidated basis sometime in the next 12 to 15 months and create value. I will now hand over to Sanjay, our Group CFO to give you a quick update on the financials. Over to you Sir!

Management: Thank you. I hope you all have seen the results presentation available on the website. Financially, we had a good quarter and the key figures on a standalone basis are as follows: Q1 FY2020 revenues from operation at Rs.82.9 Crores versus Rs.133.7 Crores in Q1 FY2019. We had no movie release this quarter; however, Q1 FY2019 had the very successful Veere Di Wedding Rs.51 Crores of the revenue belongs to it, removing the impact of this our TV business had Rs.12 Crores more revenue this quarter. Q1 FY2020 gross margin at 32% versus 16% in Q1 FY2019, another quarter of improved margin has shows launched last year are now operating at sustained high margin and more importantly we have initiated significant cost controls in the new shows launched during the quarter.

Q1 FY2020 EBITDA at Rs.10.6 Crores versus negative Rs.0.9 Crores in Q1 FY2019 and Q1 FY2020 PAT at Rs.2.5 Crores versus negative Rs.1.2 Crores in Q1 FY2019. This year we adopted Ind-AS 116 and this has resulted in an increase in our depreciation charge from Rs.3.1 Crores in Q1 FY2019 to Rs.8.3 Crores in FY2020. We have a number of long-term leases across our studio set and corporate headquarters. ALTBalaji continues to grow subscription revenues while maintaining its cash spend. The latest deal with ZEE5 will help us reduce our cash burn as the content cost is shared with ZEE5. Q1 FY2020 revenues for all Balaji at Rs.12.3 Crores versus Rs.5.8 Crores in Q1 FY2019. Overall value of investment in mutual funds across the company as at June 30, 2019 was at Rs.247 Crores. In addition there is an inventory as on June 30, 2019 for movies stood at Rs.68 Crores and for digital at Rs.146 Crores. I thank you all for joining us today and now would request the moderator to open the Q&A session. Thank you.

Moderator: The next question is from the line of Dharmik Prajapati from Prosperity. Please go ahead.

Dharmik Prajapati: My first question is, in the last concall, management has targeted PBT for the TV business will be Rs.50 Crores to Rs.55 Crores and movie business will be Rs.20 Crores to Rs.25 Crores for FY2020, now is it possible in the light of only Rs.3 Crores PBT in Q1 FY2020 at standalone level?

Management: Basically all the movie release happened in Q2, so most of the revenues from the motion pictures and its consequential profit will also flow into Q2 and Q3. Some of the movies, distribution and marketing spend already comes in Q1 because that is how we account for it, so you cannot take Q1 run rate of PBT and extrapolate it for 12 months, so you have to wait for Q2 which will kind of hold onto the numbers which we have given you last time.

Management: But the TV number is fairly on track, look at TV standalone is on track, movie once we have three releases in this quarter, the numbers will look much better in Q2.

Management: You will see the visibility of Motion Pictures profit as well.

Dharmik Prajapati: My next question is standalone revenue is Rs.82.9 Crores out of which Rs.69.6 Crores from TV business and Rs.1.66 Crores is from movie business, so what is the balance amount at Rs.11.64 Crores from which source, can you please…?

Management: That is between Balaji and ALTBalaji also produces shows for ALT, so that is inter-company transaction.

Dharmik Prajapati: But at standalone level Sir?

Management: When Balaji producers shows for ALT, the numbers of Balalji will carry the ALT revenue.

Dharmik Prajapati: Okay, fine.

Management: Consolidated and gets eliminated.

Management: When you consolidate the results, it becomes the cost for ALT and a sale for Balaji Telefilms, so on a standalone level that number…

Dharmik Prajapati: Intersegment?

Management: Yes.

Dharmik Prajapati: Next question is, will company increase the production of number of hour or a rate per hour to achieve the revenue of Rs.300 Crores to Rs.350 Crores for FY2020?

Management: We believe at 800 hours annual production should be reasonable bet for television and we see a marginal inflationary price hike in terms of realization per hour.

Management: What will help us to achieve our profit is tighter cost control and better cost management. We are understanding that the economy as such is again like I mentioned in the speech facing headwinds, so this year we will be anywhere between Rs.300 Crores and Rs.350 Crores on the topline, but we have already demonstrated good and tight cost control in the first quarter which will be carried through in the other three quarters.

Dharmik Prajapati: So Rs.300 Crores will be probably achievable for this FY2020 right?

Management: Yes.

Dharmik Prajapati: One question is that during the Q4, this quarter 4 million new subscribers were added totally. The company has subscription base model even if a new added subscriber paid only one month subscription of Rs.25 so that comes to around Rs.10 Crores out of which total of Rs.12.3 Crores, so does it make sense that only Rs.2.3 Crores are from the old subscribers?

Management: Yes, that is probably what you can calculate but, your Rs.25 number is a mythical number at this point in time because our rate is actually never monthly, we have three-month package, there is no monthly package that is point one. Point two is 80% of those numbers have come from Telcos, so that ARPU is lower than Rs.25, I cannot disclose of that number, but it is lower than Rs.25, so actually the retained number for people who have been retained from the past is actually higher than what you says, so Rs.25 is not the correct number that number is lower than Rs.25, the average that you...

Dharmik Prajapati: How much is direct subscription revenue from this Rs.12.3 Crores?

Management: We are basically said that 20%,is direct and 80% through partnership is the ratio.

Dharmik Prajapati: And what are the number of current active you have?

Management: What are the…

Dharmik Prajapati: What are the current active subscribers?

Management: We have 5.1 million active subscription base.

Dharmik Prajapati: 5.1 million currently. Okay, fine. Thank you Sir.

Moderator: Thank you. The next question is from the line of Pradeep Barsagade from Edelweiss Securities. Please go ahead.

Pradeep Barsagade: Thanks for the opportunity. My first question is towards the announcement which Reliance had made yesterday regarding the first day digital release as a content creator, as a production house, how do you see this and do you think it is achievable, just wanted to know your comment on this?

Management: We are looking upon this at a very positive development, it will help consumer's access internet at a very high speed, we have seen previously when Jio was launched that Reliance has revolutionized this market and made internet accessible to the masses of India that fits very well with our strategy because our content has been historically mass content, so all steps and measures taken to spread internet out at high speed like the once that Jio Fiber will lead up doing, it is a very, very positive move and a very positive development for us.

Pradeep Barsagade: My question was largely on the movies part where they had announced that there will be having the same day digital release for movies as the theatre release, so basically the movie will be released on a digital platforms on the same day, so in regards to that how do you see this?

Management: I am sure there is economics behind it. You should ask somebody at Reliance what that is. For us, we are happy to create movie that reach out to maximum number of consumers you know that economics of that will of course decide how our P&L looks, but from a conceptual angle if it reaches out to 10x the number of subscribers that it does today is a release that is always very, very good.

Pradeep Barsagade: But the monetization will be very different right because as a content creator, as a production house, the maximum monetization usually comes from the multiplexes and the theatrical release, so that was the question?

Management: This was the model that was about like three, four years ago; however, the maximum monetization today does not come from theatrical, there is an equal contribution on the digital in satellite rights for monetization. So I think today we will make us in studios are getting increasingly used to getting minimum guarantees or getting one-sale model. If you notice in our earlier opening speech we said our business is secure, because we have presold our digital satellite music as well as domestic theatrical distribution rights. So we are okay as long as it makes economic sense for us.

Pradeep Barsagade: Pre-selling that is one aspect, but the same day release something which could decrease the monetization bit right?

Management: What is your thinking behind that I would like to know, are you privy to what cost will it be sold at etc?

Pradeep Barsagade: No I am not privy to that of course, but my point is that if…?

Management: Today new economics are getting established.

Pradeep Barsagade: Pardon.

Management: Those economic models are getting established without knowing what cost they will be sold, it is difficult to combine. If I make a film for Rs.100 and somebody takes and all out buy out from Rs.150 Crores I might happy to sell it.

Pradeep Barsagade: Okay.

Management: That is the missing link here.

Pradeep Barsagade: Okay.

Moderator: Thank you. The next question is from the line of Niraj Kamtekar who is an Individual Investor. Please go ahead.

Niraj Kamtekar: Your Q1 FY2020 subscriber revenue is lower than Q4 FY2019 in spite of higher number of total subscribers, Sir why?

Management: The distribution of subscriber is different and we had different kinds of subscription sold sometimes you sell more annual pack and sometimes lesser

Niraj Kamtekar: For Q4 FY2019, your total number of subscriber is Rs.21.3 million and for Q1 is Rs.25.3 million.

Management: Correct, so that is basically because the distribution of subscription sold is towards more three monthly subscriptions and annual subscriptions in those quarters.

Niraj Kamtekar: For Q4 FY2019, revenue is 13.5 and right now for Q1 12.32 correct?

Management: The explanation for that is the distribution of revenue is different, we can get 5.1 million subscribers with some of them paying Rs.15, some of them paying Rs.20 depending on how many come through partnerships whereas in Q4 there were more direct subscriptions.

Niraj Kamtekar: Okay and one more question, the depreciation and amortization jumped by Rs.5 Crores in Q1 whether any assets is being added or some inventory amortized? Is it one time or it will be the run rate?

Management: It is purely Ind-AS 116 impact, so it is just a line item adjustment, so if you just compare last year to this year, it would have moved from the production cost to the depreciation line item, so this will have an impact even in the coming quarters, because it impacts each quarter, so this is just a line item reclassification and there is a marginal charge to the P&L which comes as a finance cost in the financials.

Niraj Kamtekar: It is the run rate for every quarter Rs.8 Crores?

Management: Correct, depreciation per se has not gone up, initially the depreciation the charge of lease rentable also getting accounted as a production cost which now has moved to the depreciation.

Niraj Kamtekar: Next quarter we assume depreciation of Rs.8 Crores?

Management: Absolutely.

Niraj Kamtekar: Okay and the company has proposed the increasing director remuneration for Ekta mam from 2.5 Crores to Rs.5 Crores? What are the specific reasons for that now?

Management: Resolution carries those details any specification, you have to go through the explanatory statement which we have provided in the AGM annual report. It carries full details.

Management: Okay, fine. Thank you.

Moderator: Thank you. The next question is from the line of Rithwik Sheth from Oneup Financial. Please go ahead.

Rithwik Sheth: Good evening. Sir, a couple of questions. On ALT, I joined in late, what is the kind of out flow cash investment that we are looking to do in FY2020 and what was that in Q1?

Management: Last year we invested on Rs.150 Crores we think we should be investing around another Rs.150 Crores out of which Rs.75 Crores we had already invested in Q1, so our proposed investment again in ALT will be around Rs.75 Crores and there we will see later if we need to increase more funds.

Rithwik Sheth: And Rs.150 Crores will be 50%?

Management: It is equity investment.

Rithwik Sheth: Yes that I am aware, but 50% would be for content and balance for… Sir how does that…?

Management: Rs.100 Crores for content, 50% balance for everything else…

Rithwik Sheth: Sorry I missed that.

Management: Yes, it is Rs.100 Crores plus Rs.50 Crores that is the split Rs.100 Crores on content, Rs.50 Crores for the rest, local plus tech plus people.

Rithwik Sheth: Okay, basically we would have another couple of years of cash and the books for investing then what would be the strategy post that?

Management: Well we have done a deal with ZEE5 if you have read in the papers, that will ensure that we do not have this cash insufficiency because we are getting a percentage of our cost compensated through that deal, so our aim is to break even on both the cash as well as on a P&L level, the consolidated business by March 31, 2020 given that at this scale of operations that what we are doing right now we will be cash sufficient for a long time.

Rithwik Sheth: Okay, this ZEE deal we would be renting some content and they would be providing us fees on that, is that understanding right?

Management: Yes there it is basically that it is a co-sharing model, share the content on ALT as well as on ZEE. Before the ZEE deal we used to share the content on about 6 to 7 partners we are whom were the big Telcos now all that will be taken away and everything will be behind the paywall for all production that will go on H2, second half of the year.

Rithwik Sheth: Okay, so basically from the H2 of the year if I am say on one of the Telcos then I would not be able to access that content for free, is that understanding right?

Management: Correct.

Rithwik Sheth: Okay, so I will have to pay the Telco or to Balaji directly? How does that part because I understand?

Management: As of now it will not be available at all in any of the Telcos.

Rithwik Sheth: Okay, so post basically from H2 October , 2019 onward, there will be no content of ALT Balaji on the Telcos?

Management: Correct, we will of course get a paywall system, but right now I think it is not through, but at least from October 1, 2019 it will be only Zee and us.

Rithwik Sheth: Okay, so on that further right now, I understand more than 75% of a user base would be from Telcos, so what is the kind of visibility that we would have to compensate for the loss of this and just doing on zee and our own platform?

Management: I did not understand your question.

Rithwik Sheth: Right now, what would be the percentage of revenue coming from the Telcos or out of Rs.12 Crores quarterly?

Management: Last year out of Rs.40 Crores that we do, Rs.25 Crores we did on the partners including Telcos and everybody else in 15 directly, but that is 25 and we will get a considerable chunk of money from Zee that will ensure that are losses go down considerably, so everything is going to always be behind the paywall remember both in the case of Zee and us so we are out of the free environment and our top line is likely to more than double from last year or just about double from last year that is the impact that this deal will have.

Rithwik Sheth: Okay, so basically from H2, the revenue from zee coming in will be higher than the loss of exit of the Telcos?

Management: Yes it is significantly higher.

Sanjesh Jain: Then the loss on the exit of the Telcos partner.

Rithwik Sheth: Okay, so if you are investing Rs.150 Crores per year, can we expect FY2022 have at least Rs.50 Crores to Rs.60 Crores of revenue from that?

Management: Yes, certainly probably a little more, last year we did Rs.42 Crores, like I said we are looking at a number that is significantly above this. You will be surprised to see the number in March.

Rithwik Sheth: Okay and do we have any deal in place already with Zee on the quantum of the pay or that depends on the content?

Management: Quantum of the…sorry?

Rithwik Sheth: Do we have any already agreement on the quantum of the payment that they will do to us?

Management: Yes certainly.

Rithwik Sheth: Okay, so it does not depend on the number of shows that you provide them or…?

Management: It does.

Rithwik Sheth: Okay that might be variable.

Sanjesh Jain: These not going to pay me if I provide them zero shows right.

Rithwik Sheth: Yes of course but we will be leveraging our existing content as well right on their platform?

Sanjesh Jain: No, it is only for content, existing content stays only on ALT.

Rithwik Sheth: The new content creation will be shared with them?

Sanjesh Jain: Correct.

Rithwik Sheth: Okay, great Sir and all the best for the coming. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Vohra from BNP Paribas. Please go ahead.

Kunal Vohra: Thank you for the opportunity. I just wanted to check with the deal with Zee, is it a reciprocal arrangement wherein you also will be able to get ZEE5 content or it is only that will be providing content there?

Management: No, it is not reciprocal, you must understand that the movie library and the degree of investment that Zee network has is pretty large.

Kunal Vohra: So in that case the short future of ALTBalaji I mean the ALTBalaji will be like, so your content will be available in ALT Balaji and it will also be available it on ZEE5?

Management: Correct like I explained before, right now it is available on three Telco apps plus a lot of partners free to the consumer and paid on ALT, so from a multi-partner free environment, we moved to a single partner environment where everything is behind the paywall, also our library content about 38 to 40 shows stay exclusively with us. We are also assured a certain sum for revenue and we will continue our growth for trajectory in year one it is Rs.7 Crores, second year Rs.42 Crores, third year, we are likely to did very, very, we are likely to continue on the trajectory and probably go 1.5 to 2x what we did last year.

Kunal Vohra: So the customer in that case has the choice of either like watching your content through ZEE5 like by paying a higher amount or by paying a slightly smaller amount they can watch only to ALTBalaji content through your app Sir?

Management: Correct and these pricing models will evolve as we go through the deal.

Kunal Vohra: Sure okay and Jio the investor in Balaji, so even Jio will not be getting any content, correctly say we will not be saying the ALTBalaji content which several Telco…

Management: These for the H2 of the year, so that is locked between ALTBalaji app and Zee.

Kunal Vohra: And what is the longer term future of ALTBalaji like this is how it will work, is this sustainable model, because you changed the model like couple of times in the past, so is this the way you are looking at it like going forward?

Management: What are the changes you are referring in the model?

Kunal Vohra: Initially you are let us say charging Rs.99 and then…?

Management: Sorry I think you got your facts wrong. That is incorrect we have not changed the price, not changed at all, so I would like to know what specific changes you are talking?

Kunal Vohra: So initially you had a subscription model then you are with Telco partnerships?

Management: Not really, we were from day one live with Telcos from Vodafone onwards, we have always been Rs.300 for annual, Rs.100 for three months from day one we went live with Vodafone, then we went live with Airtel and Jio after that, so we have always been available on our partner and our pricing always has been Rs.100, Rs.300. What we have changed now is that we have cut it from a multi-partner free system to a single partner pay system, but our belief to answer your question, what is the long term, you know believe for ALT Balaji or long term believe lies in the fact then we want to give a good breakeven and healthy business, so that we can continue funding this businesses. The customer acquisition cost today are prohibitive, so we believe that unless we mix our direct acquisition with partnership acquisition, we are likely to lose money on every consumer that we acquire, we are therefore trying to move the group which was like about Rs.90 Crores in loss last year including ALT to an almost break even situation by March 2020, so that the TV plus movie profits and ALT losses all cancel out each other. This will move to a positive number in the next financial year starting March 2020, ending March 2021. So we want to make this business profitable.

Kunal Vohra: Thank you Sir.

Moderator: The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Thanks for the opportunity. Sir I just wanted to understand whether ALTBalaji would also be creating content outside the partnership with ZEE5, would it for independently produce some content as well?

Management: ALTBalaji does not produce any content, our production norm is Balaji Telefilms. Right now all the capacity that Balaji Telefilms has to produce digital content is being consumed by ALTBalaji whether this will happen or not six, seven months down the line, we are yet to see, but for that we want to see a drop in business, so I think that will not happen in a hurry, we are thinking about it

Yogesh Kirve: Let me rephrase, whether ALTBalaji will commission a content independent or outside the deal with ZEE5 or everything that will be on ALTBalaji would be on co-created basis?

Management: Everything that is in H2 will be on a co-created basis.

Yogesh Kirve: Okay, so secondly regarding the payout from ZEE5, so would that cover substantially all of our cost and whatever monetization happens on ALTBalaji would be a surplus or how is?

Management: We are not able to reveal that suffice to say that we will definitely improve our top line between these two to 1.5 to 2x of what we did in the previous financial year. At the end of the year, the guidance is that we want to breakeven on the consolidate level.

Yogesh Kirve: Also if you would provide response to this, so as payout from ZEE5 would it be – is it six kind of nature or is it link to the performance of the content or based on number of views or…?

Management: Not linked to performance, but we certainly have to produce a certain number of shows.

Yogesh Kirve: Right, okay and in terms of the movie line of show, four of the movies are getting released two have already released and I think another two are slated for release. So beyond what sort of content pipeline we are looking at, the films pipeline we are looking at?

Management: Right now we are looking at Rs.100 Crores to Rs.120 Crores capital that will be deployed in recycle this year, because we have presold rights, we have assured profits of anywhere between Rs.20 Crores and Rs.30 Crores, so minimum Rs.20 Crores at upside, it is of course upside and we have made the business secure through minimum guarantees and we are looking at making that kind of Rs.100 Crores to Rs.120 Crores investment in movies on a consistent year-to-year basis probably across four movies every year.

Yogesh Kirve: Then we talk about how many movies are under production at this stage apart from four which are slated right?

Management: None other than four that are slated or under production right. They will go into production in the second half two more movies will go.

Yogesh Kirve: Okay, sure. That is all for me and all the best.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OM Portfolio. Please go ahead.

Mayur Gathani: Thank you for the opportunity. Sir once give your content to ZEE who will own the IP?

Management: It is shared.

Mayur Gathani: You will continue to play it on your app as well as ZEE will play it on its app?

Management: Correct.

Mayur Gathani: And is this the same for the movies as well?

Management: No, movies the IP structure is totally different, movies only played on ZEE5, we do not play them on our app.

Mayur Gathani: So you do not play your movies on your app?

Management: Not for the last two years and not probably for the next two years also.

Mayur Gathani: Okay and this deal has a definite time period of two years only?

Management: At this point yes, it is a two yearly.

Mayur Gathani: Okay, so you will have only your content on what you produce on ALTBalaji and you will co-share it with Zee, Zee can continue to run the way, it is running may be through deals with Telcos etc and you will get a fixed amount from Zee at the end of the year?

Management: The only condition is it has to be all behind a paywall.

Mayur Gathani: You are saying Zee has a condition it has to be behind the paywall.

Management: Yes and so do we.

Mayur Gathani: Zee may give it free I mean Zee may still pay you at the end of the year or whatever the fixed amount is?

Management: The condition is that I am again repeating. The condition for the deal is that it has to be behind the paywall.

Mayur Gathani: Okay and there is no reciprocation from Zee and it is only for the newer content in the H2 that you will start producing?

Management: Correct and that date will five, six days here and there but yes.

Mayur Gathani: That is fine, so kind of you become what you are doing in Balaji today for the medias, Star and Zee etc, you will be same thing for ZEE5? Is that the right way to put it at least for two year period?

Management: I do not know you are saying this, but can you please explain the reasoning behind that?

Mayur Gathani: You are producing content. At Balaji, you are producing content and you are giving it to Star, Zee etc to run it and they owned IP, here as again Balaji is producing content, giving it to ALTBalaji as well as giving it to ZEE5, but only difference is you own the IP, you co-share the IP?

Management: We co-share the IP and secondly we also put it on our platform, we do not have a TV channel right to compare, we do not have a TV channel where we run Kasauti

Mayur Gathani: Yes, you do not, but I am just trying to – you just become more of only difference here is that you also have your own app where you are running it and you are not exploiting other options?

Management: You think that it is significant difference or not a significant.

Mayur Gathani: It is a significant difference, what I am saying is what we came across was as an ALTBalaji was supposed to be an app by itself where if you would explore all the options possible, you are just limiting itself to one app I am saying that okay, the rest all will be done by ZEE5.

Management: I am not understanding what you are saying, will you please explain the logic behind what you are saying, direct mean what and what they came across means what will you just kind of explain that?

Mayur Gathani: This was the app right where you would have explored all your content etc and marketed with the Telcos or multiple partners right to take it to all levels, here you are doing it for yourself now right, you will not be with any Telcos or any other future opportunities that may come up with at least for the next two years, because Zee has all the rights to do whatever it can do behind the paywall?

Sanjesh Jain: Where are you coming across this data may I ask you? Zee has all rights and something, is there a data point that you are looking into or..?

Mayur Gathani: I understood like that so I just want a clarification that…

Management: Just to understand the deal, the deal like I said before even in a multi-partner environment where we gave our content to Telcos to many other partners actually seven to eight partners, so now we are closing that out, so consumers would not be able to get it free, they will get it only on two partners ZEE5 and us. Earlier it was on every Telco partner and that accounted for 90% coverage of all the mobiles with base in India, now between two partners we are not going to expose it to 90%, that part one. Part two, we co-own the IP so it continues to stay on us, so it is not like a TV production deal, because we have channel to reach the consumer ourselves. Part three is that our library of 38 shows that we have produced so far or 40 shows that we have produced so far, continues to be exclusively with us whereas till now that whole library you are residing on all the three Telcos.

Mayur Gathani: Thanks for the clarification. One more point, this 38 shows that you still have with you and which you own the IP, can you share it with others apart from ZEE5?

Management: It has to all be behind the paywall that is the content.

Mayur Gathani: Behind the paywall, but can you share if it is someone else as well?

Management: Yes the only condition, it has to be all behind the paywall.

Mayur Gathani: Great Sir. Thank you for the clarification.

Moderator: Thank you. The next question is from the line of Rithwik Sheth from Oneup Financial. Please go ahead.

Rithwik Sheth: Thanks for the followup. Just reading into your commentary, it seems that we are doing Rs.30 Crores to Rs.35 Crores of cash loss, this Rs.30 Crores to Rs.35 Crores of cash loss this quarter and you are saying that by Q4 FY2020, we will be around breakeven, so assuming that majority profit comes from ALT and ZEE5 partnership, does it mean that this annual run rate which we saw in FY2019?

Management: Also the profit of motion pictures has not come in as yet, so full profit on motion pictures will come only in the coming quarters and TV profit also surges in the coming quarters. We will update this which you can just extrapolate for the year end.

Rithwik Sheth: Sorry, I did not get.

Management: It is not a run rate that you can extrapolate for the whole year.

Rithwik Sheth: Okay, but this bulk of it would be coming from ALTBalaji is that understanding right like Rs.20 Crores odd of incremental revenue?

Management: There is a bit of that, but actually for your question on cash, the cash receipts from the sale of rights for the movies has to yet come in, it has come in Q2, so Q2, Q3 we will see that, that is the portion, H2 that is the second half is when the cash situation on ALT we will see a significant increase, so the movies cash inflow starts from this quarter, that is Q2 onwards, Q3 to Q4 because the Zee deal kicks in, you will see a significant improvement on the cash flow on ALT also, a combination of this will mean that we will be in a much better position breaking even like I said at the end of the year.

Rithwik Sheth: Okay and just going forward from the last participant's question about the existing shows in our bouquet, we would be open to monetizing those as well right with ZEE5 or anyone if there is a lucrative deal on the table?

Management: We are always open to monetization, but what we are also thinking about is how do you balance, when you have to acquire direct subscribers you have to make losses, when you are going through partnerships, you have to offset your partnership revenue, because you do not make that money losses when you go through partner, but the question lies herein between that who will own in how much of ownership do you need of subscribers and that is the balance that we have to strike. If we do too much of partnership and all our revenues are only partnership revenues then the ownership of the consumer becomes a little weaker especially when our library grows, so today if it is 60%, 40%, that is 60% from partners 40% from direct we want to maintain that ratio so that while we fund our content ambitions and we get cash process, we also have a healthy stream of direct subscribers coming for us.

Rithwik Sheth: Okay.

Management: So we might not quickly syndicate unless there is a lot of money on the table.

Rithwik Sheth: Okay Sir that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Darpan Thakkar from HSBC. Please go ahead.

Darpan Thakkar: Thanks for taking my question. I have one question on this co-shared deal if any subscriber coming directly to ALTBalaji platform by paying, will you be sharing that revenue with Zee or it will stay with ALTBalaji only?

Management: No, it will stay with ALT.

Darpan Thakkar: Okay thanks that is it.

Moderator: Thank you. The next question is from the line of Dharmik Prajapati from Prosperity. Please go ahead.

Dharmik Prajapati: I had one query about that you mentioned about depreciation run rate of Rs.8 Crores for every quarter, so we can see the depreciation increased by Rs.20 Crores for FY2020 compared to last year, so being a run rate of Rs.8 Crores for every quarter, so then also the PBT guidelines of Rs.50 Crores to Rs.65 Crores is achievable for this current year?

Management: Yes, I am once again repeating. What changes you have seen in depreciation line is because of the Ind-AS impact so production cost has gone down by Rs.5 Crores and your depreciation cost has gone up by Rs.5 Crores, it is a line item adjustment and this is flow for the full quarter, so overall my EBITDA will not change in terms of depreciation if you just reclassify the item of Rs.5 Crores back to production cost that is how it will remain and my year end number still holds good. It is not that my depreciations has increased by Rs.5 Crores. It has got reclassified from production cost to the depreciation because of Ind-AS.

Dharmik Prajapati: GP is lower basically?

Management: Sorry.

Dharmik Prajapati: GP will be lower right?

Management: GP will become higher, your production cost will show as saving of Rs.5 Crores then depreciation will go up by Rs.5 Crores that is the reclassification I have been referring because of Ind-AS.

Management: So gross will go higher, but net will get adjusted and Rs.5 Crores will come here.

Management: Only marginal impact of Ind-AS has come in, so there is no major changes because of Ind-AS for us, it just line item reclassification.

Dharmik Prajapati: Okay, fine and another question is you are saying that Balaji will achieve the break even at consolidate level, so does this mean it is because of Zee deal?

Management: One factor is that the other factor is the fact that we have a good movie there also, the third factor is we are able to have a better cost control environment for television, all these three put together, we are confident that we will achieve break even and that is only through the H2 of the year, so full year impact will be even better.

Dharmik Prajapati: Okay, fine and another question is our shows are available through Telcos, ZEE5 and then anyone will be subscribing, so why would anyone subscribe directly through ALT, when Telco rates are lower, ZEE5 has a larger library, why there will be increase in our direct subscription to ALT?

Management: There are two points of data for this. Let me just take you through the journey. When we started off we were giving all our content on Telcos as well as us, but today we have a direct subscription base which is about million-and-a-half to two million, so people do subscribe to ALT Balaji despite content being offered free on Telcos which data has proven, so we have a direct subscription base today, though there is some on Telcos, but there is we have direct subscribers also. As a matter of fact, in the last FY, we earned Rs.25 Crores through partnership revenue and Rs.15 Crores, Rs.16 Crores through direct subscription, so 40% we are earning through direct subscription though things are available free. What the Zee deal does is that there will be no Telcos now where freely content will be available, so there is no free-pricing model, everything goes behind the pay and therefore we are more confident that we will be able to get direct subscriptions one, the third factor is that our library will be exclusive to us, library of 38 shows for which people will come to watch exclusively on us, only the fresh shows in H2 will go onto ZEE5, so these three factors leaders to believe that we will have direct subscription growth year-on-year.

Dharmik Prajapati: Okay, fine. Thank you Sir. That clears all my doubts.

Moderator: Thank you. The next question is from the line of Niraj Kamtekar who is an Individual Investor. Please go ahead.

Niraj Kamtekar: Suppose Zee deal is done then there is no Telco?

Management: We will not be on Telcos, it is not as a Telco will not exist, they will service the people of this country, but we will not be on Telcos post the Zee deal operationalization with fresh content.

Niraj Kamtekar: Okay. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. On behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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