"Balaji Telefilms
Q3 FY2020 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Balaji Telefilms Q3 FY2020 results conference call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Ankur Periwal from Axis Capital Limited. Thank you and over to you Sir!

Ankur Periwal: Good evening friends and welcome to Balaji Telefilms Q3 FY2020 earnings call. As usual, the call will be initiated with a brief management discussion on the quarterly and the 9 monthly performance followed by an interactive Q&A session. From the management team we have with us Mr. Nachiket Pantvaidya, CEO of ALT Balaji, Mr. Sanjay Dwivedi, Group CFO. Over to you Nachiket for your initial comments.

Nachiket Pantvaidya: Very good afternoon. Thank you for joining us on our Q3 FY2020 earnings call. I hope you all have had a chance to review our earnings release published yesterday evening. The quarter and the first 9 months of this year has been very good for us as our investments in creating content across TV, movies and digital have now started to pay off. I am pleased to report that Q3 FY2020 has been a record year of profitability for us and is the highest quarterly profit in over 12 years. I will now quickly walk through major updates across our business.

Starting with the update on the TV production business where we continue to drive the ratings for the broadcasters we work with. For the quarter we had 15% market share in prime time rating, which is still more than our production houses rank 2 and rank 3 combined. This allowed us to finish the calendar year as the number one creator of content on Indian television. We had nine shows on air during the quarter and produced over 219 hours of content. Our shows are doing very well and we launched two new shows in the quarter. The iconic Naagin came back for season four a testament to our understanding of mass Indian content.

We also launched Yeh Hai Chahatein, a spin off show based on the hugely popular Yeh Hai Mohabbatein. Yeh Hai Mohabbatein came to an end after entertaining Indian audiences for over six years. Our TV business remains on a solid footing and we will continue to focus on driving hours of production and realizations. This quarter we also successfully scaled up our digital content production arm. and created a number of hit shows for our ALT Balaji platform. We have the required teams and infrastructure in place to continue to produce and create hit contract television and digital. Overall, the TV business remains on a solid foundation and will contribute significantly to the earnings for the year.

Coming to our movie business, we had an exceptionally good performance primarily driven by the superhit movie Dream Girl, which was accounted for in the quarter. Balaji Motion Pictures continues to focus on presales and co-production of its future slate and our capital commitments to the movie business remains limited. We have four movies in the pipeline and our intention is to focus on presales and co-production where feasible. For example, Ek Villain 2 is being co-produced with T-series as a production partner.

Other movies in the pipeline include Dolly Kitty Aur Woh Chamakte Sitare starring Konkona Sen Sharma and Bhumi Pednekar, which had a very successful premier at the Busan Film Festival last year. Pagglait starring Sanya Malhotra and KTina starring Disha Patani, both of which are original stories that should connect well with Indian audience. Finally, on ALT Balaji, we continue to establish ourselves as a preferred choice for urban mass hindi content. Our collaboration with ZEE5 has gone live since September and both partners are pleased with the success so far. We continue to create shows that work well with digital audience in India and Indian's abroad. Our current active subscriber base stands close to 1.6 million and we continue to see good traction on the direct subscription front.

We are ranked consistently in the top 5 grossing apps, currently we are ranked #4 across IOS and Androids despite one of the lowest subscription prices in the country and investing about one tenth of what our competitors invest in marketing. Our deal with ZEE5 will help us get committed revenues towards content creation while allowing us to grow our direct subscriber base. The partnership allows us to conserve our cash burn by way of co-production and move towards becoming profitable and a valuable OTT and we have now significantly reduced our EBITDA burn for the quarter from an average run rate of Rs.30 Crores a quarter that is a loss of Rs.30 Crores a quarter we are now down to under 15 Crores and expect this to narrow down quickly. I will now hand this over to Mr. Sanjay Dwivedi, our Group CFO to give you a quick update on the financials.

Sanjay Dwivedi: Thank you. I hope you all have seen the results presentation available on the website. Financially, we had one of our best quarters in recent time. The key figures are as follows:

Revenues for the quarter were at Rs.198.4 Crores and up 78% over the same period in FY2019. This was driven by two main factors, an increase in digital content production for ALT Balaji and ZEE5 and the full impact of the movie Dream Girl in the quarter. Significant expansion in EBITDA for the reflective of strong operational cost control especially around the new shows launch in quarter. EBITDA for 9 months was at Rs.95.9 Crores versus 16.1 Crores a growth of nearly 5x. Finally, standalone Q3 PAT at Rs.29.4 Crores and 9 months PAT at Rs.47.4 Crores growth of 145% and 165% respectively all reflective of a strong operational performance across our TV and movie business. Coming to ALT Balaji, as mentioned previously, we continue to drive strong revenue growth, which was Rs.23.1 Crores for the quarter versus 41.8 Crores for the full year FY2019. We continue to keep a tight control on cost. EBITDA loss in Q3 on ALT Balaji has fallen sharply and was at Rs.16 Crores versus Rs.68 Crores in the first half of the year. The strong performance is also reflected in our consolidated numbers. The company continues to remain cash free with mutual fund investment as at December 31, 2019 was at Rs.175 Crores and further cash and cash equivalents of Rs.14.5 Crores. The board has also declared an interim dividend of 20% or Rs0.40 paisa per share. Overall, we believe our investment into creating the content and platform are now reaping the rewards and we believe we can continue this momentum into the coming quarters. I thank you all for joining us today and now would request the moderator to open the Q&A session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Thank you for the opportunity and congratulations on a good quarter. I had two, three questions, one is you do talk about the pivot to paywall, so just wanted some more details on that, firstly you are saying you are kind of no more free to customer along with the single partner only, so what is this exactly mean?

Management: It means two things that before September 1, 2019, we were available free on our Telcos to our customers at ARPU, which was bordering between Rs.15 and Rs.20 because the usage was monthly base, so the ARPU of this Telco customers was very low, but we had a large base of Telco customers that came not directly to us, but came on the Telco base. Now, that has stopped and everything is available only when the consumer pays for it whether it is in ZEE5 or on ALT. In addition, what has happened is that we produced 42 shows before September 2019, which are now available exclusively only on ALT, they are not available in ZEE5, so ZEE5 right now has about 13 shows that we produced in the last few months and the rest of the shows are available only exclusively on ALT. This has enabled us to one raise our ARPU, secondly have direct subscriptions going up, as a result year-on-year, we are doubling our subscription revenue overall also and also through direct subscribers, so that is really the benefit of going behind paywall, we feel that as our library increases we need to ensure that people form the habit of paying for our content and our content is not offered free. We had to do Telco deals and give it off free in the first, probably 30 months of our existence because our library was small, but now we have taken a call, now with the library is growing that we are going to go only behind paywall.

Rohit Dokania: Understood, does that mean that we are not present in any of these Telco aggregator apps at all?

Management: Correct.

Rohit Dokania: And did it have any impact in terms of knee jerk sort of reaction to our revenues or there was no such impact because of these?

Management: As a matter of fact, in this quarter the revenues have gone up, as you would have seen, so just to give you an overall picture, our numbers are looking more and more cheerful in terms of the topline simply because we have got 42 shows exclusively and we are also able to manage our P&L and revenues because of our deal with ZEE where there is content sharing and reimbursement for content sharing.

Rohit Dokania: So, actually that was the second question, so you did allude to some of it in your opening remarks, if you can just provide more details, how is the content cost sharing, how does that happen and in terms of is there any sort of ARPU sharing as well that goes on because I believe your content is also available on ZEE5 as well, it will be difficult to give the details, but at least some qualitative comment would be helpful?

Management: It is a 60-40 content share, 60% of our content cost is picked up ZEE and I think on an annual basis that will amount to at least about 80 Crores to 90 Crores and the rest of the money that we spend on the apps has to be made by us directly through our exclusive live and show that exploit and as a result of that we hope to breakeven between 36 to 48 months from our launch that is anytime after the AMJ quarter we will start breakeven, right now this quarter loss stands at about 16 Crores, we will make that single digits in January-March and April-June onwards we will practically breakeven the ALT business.

Aasim Bharde: Great, Sir. Thank you and all the best.

Moderator: Thank you. We have the next question from the line of Dharmik Prajapati from Prospero Tree. Please go ahead.

Dharmik Prajapati: In movie business, so the pipeline Dolly Kitty Aur Woh Chamakte was suppose to release in Q4, but now it has shifted to Q1 in FY2021, so what are the actual pipeline for Q1 FY2021?

Management: What is your question, are you continuing I am not able to understand?

Dharmik Prajapati: I just wanted to understand what is the sure pipeline for FY2021, because what I assume that there were four that we are going to launch in this current financial year, now only three movies released and now four movies scheduled to next year, so what is the pipeline for FY2021?

Management: So, so the pipeline and you can count the four, number one is Dolly Kitty, second is KTina starring Disha Patani then it is Pagglait, starring Sanya Malhotra and we have Ek Villain 2, which we are co-producing with T-series. The release date for Ek Villain 2 is not yet confirmed, but it could well be in March 2021, it might just be the fourth release.

Dharmik Prajapati: What is the completion stage of this any four movies like 50% of the movie completed?

Management: I am telling you, Dolly Kitty completed fully. You would have heard it that we have already premiered it in Busan film festival. Pagglait is about 30% complete, KTina is 50% complete

Dharmik Prajapati: Ek Villain 2 is yet to start?

Management: Yes, Ek Villain 2 is yet to start.

Dharmik Prajapati: So, one thing on ALT, I can see the revenue growth is only is 2 or 3 Crores, the revenue grows by 3 Crores quarter on quarter, but our cost is very much controlled because our loss has been reduced by almost 16 Crores compared to last quarter, so I understand that ZEE contributing as a topline not in the content cost, if I understand better?

Management: I do not think you are taking the numbers right. You are talking about ALT, correct?

Dharmik Prajapati: Yes, ALT digital business.

Management: Last year for quarter three, the number was 8 Crores topline.

Dharmik Prajapati: No, I am not talking year-on-year, I am talking quarter-on-quarter?

Management: We are talking quarter-on-quarter only.

Dharmik Prajapati: 20 Crores to 23 Crores?

Management: You are talking about sequential quarter or quarter-on-quarter?

Management: Q2 to Q3?

Dharmik Prajapati: Q2 to Q3?

Management: So, there was 3 Crores on topline.

Dharmik Prajapati: And that the costs have very much reduced by 16 Crores, like it is 29 Crores to 12 Crores, so I do not understand, can you throw some light on it?

Management: Because if you would have recollect during the last conversation when we had with you guys, we have clearly told you September 1, 2019, we went live with ZEE5 correct, the full impact was not seen in Q2, whereas this quarter has full impact for the shows which we have co-shared with ZEE where we have picked up cost by 50%.

Dharmik Prajapati: And what I understand is ZEE contributing anything to the topline or is only the contain cost?

Management: 50% cost get reduced and 10% is what I accrue as revenue.

Dharmik Prajapati: Thanks.

Moderator: Thank you. We have the next question from the line of Karan Gala from Robo Capital. Please go ahead.

Karan Gala: Thanks for the opportunity. I just wanted to ask one thing, the breakeven point that you mentioned for April to June was that cash flow level or PAT level?

Management: Yes, it is a cash flow level for the quarter we are already breaking even.

Karan Gala: PAT level positive and cash flow positive by April to June?

Management: April, May, June we will be targeting P&L break even. Cash flow we are already breaking even now itself.

Management: The reason is we have some amount that we are carrying from the past.

Management: Which is residing into the P&L.

Management: That is the reason cash flow we are already done.

Management: 40 odd shows, which is not shared with anybody else that amortization continues to be in the P&L now.

Karan Gala: One more question, can you us some guidance for FY2021 and FY2022 revenue for ALT basis, I want to know about the ALT?

Management: There are two or three things, one is like we have always mention and I have mentioned on this call, between March 31, 2020 and April 1, 2021, we will breakeven the ALT business, so that is the first level of guidance, second is we are very, very sure that our direct subscription revenues are doubling every year, so year one of our operating direct subscription revenue was about 3.5 Crores to 4 Crores, second year it was 15 Crores, this year we will be well above 31 Crores to 32 Crores when we close this year, so the year after that we are also expecting a doubling in our direct subscription revenues. We are also going to continue of course with the ZEE partnership, which is beneficial to both, it is a two year contract so that will also span most of the next financial year leaking into the year after. What we want to do is three or four things, we want to be the only OTT platform in the country that has broken even that too with the considerable base of originally produced shows, we are now the number one store house of originally produced Hindi content in country and we will also breakeven, we will also demonstrate that we are able to market our shows exclusively better than everybody else because our efficiencies are better, we are achieving this at a much lower marketing spend than the competition that is reflected in the fact that we are consistently in the top four gross billing OTT apps on the Android and the IOS web store pick any month in the last 12 months we will always be in the top four, though our rate to the consumer is probably one of the lowest it is Rs.100 for three months and 300 for a year, what we are therefore setting to establish is that there is a mass market, which we are successfully able to target and operate a profitable OTT business with the topline of about 150 Crores to 200 Crores in the coming two financials.

Karan Gala: One last question I wanted to ask is last quarter you have mentioned your content creation cost on an annual basis is 160 Crores, will it come down?

Management: No, I think 160 Crores to 170 Crores is overall cost base, out of which content can range anywhere from 100 Crores to 140 Crores.

Karan Gala: So, that will come down after ZEE?

Management: No, we are making the same, we are putting the same cash expense behind, we are just getting some part of it from ZEE upfront. The value of content of production is the same it is only the ZEE is paying us.

Karan Gala: So, 100 Crores will be shared by you and ZEE, right?

Management: Yes, 100 Crores to 140 Crores depending on the market conditions.

Karan Gala: Fine, thanks.

Moderator: Thank you. We have the next question from the line of Pravin Jadhav, an Investor. Please go ahead.

Pravin Jadhav: Thank you for taking my question. Sir, I wanted to know the revenues between ZEE and us, it will be 50%-50%, or is there another ratio?

Management: There is no revenue share. I do not know where this gets picked up, it is a cost share, no revenue subsidy.

Pravin Jadhav: So, whatever customers come to our apps 100% will be ours, right?

Management: Absolutely.

Pravin Jadhav: Sir, another question I had that regarding the mutual fund investments you have, on quarterly basis it has been decreasing, so we are putting this money in the shows that we are making, so like gradually it will be decreasing or like anytime it will stop?

Management : What we published is we are clearly shown you mutual fund investment plus we have shown some investment, which is a very short-term, I think three to four months, which we have deployed into distribution business, which will come back, so they are close to cash and cash requirement will be as we speak today it will be in the range of 44 Crores to 45 Crores that is cash and cash requirement that is how you should see, its movie business allocation.

Pravin Jadhav: Sir, one more thing your ALT Balaji app is there, you can see a lot of comments wherein people are having problem when they have subscribed for it and they are not able to see it, so I think there are lot of complaints. why they are facing issues on it, do you have any information on it?

Management: Are you asking us what is the customer complaint readdressal mechanism?

Pravin Jadhav: If you see on the ALT Balaji app below there are a lot of comments wherein in customers they have subscribed the app, but they are not able to see, lot of complaints are there?

Management: We are quite serious about the complaints, we try to reach out to these people and it get resolved also but having said that if you see most of the apps have similar complaints.

Management: I think there are two or three issues in the complaint, one is payment and second is usage, I think what we are prioritizing and tackling is the payment complaint format first and the usage, some buttons which are high-tech buttons sometimes they complain about saying we do not have last and seconds rewind that technology, we communicate change that is going take some time for us to get there, as you can understand our technology investments right now is limited to around 19 Crores and they are focused on very basic simple user experience. We are not comparable to some of our foreign competitors who have invested probably at least 100 or more than that 100x times what we are on the usage part, so payment is what we will improve and we will see a continual improvement; however, if you compare our app to some of the world standard apps where the investment levels are in billions of dollar, we are not able to achieve that kind of ease of use.

Pravin Jadhav: Last question Sir, in last quarter you were saying for the movie business 80 Crores was going to be receivables, so have we booked in this quarter or is going to be booked in this fourth quarter?

Management: So, each quarter there is a receivable, which comes down, my total capital employed into movie business continues to be around 100 Crores, we will not breach that number.

Pravin Jadhav: That is it from my side.

Moderator: Thank you. We have the next question from the line of Dharmik Prajapati from Prospero Tree. Please go ahead.

Dharmik Prajapati: I have a question on the movie business, this time the revenue from the satellite rights has been recorded like contribution has comes from the satellites right if I am not wrong, so is there anything more left to be coming from the movie business in the Q4, is there any?

Management: We have recorded all the possible revenues and the cost by YTD quarter three, so nothing is there for quarter four.

Dharmik Prajapati: And this content sharing with the ZEE, I was going through the IP, it is written that the acquired content, so will this content will be shared for a limited license period and we will be able to get back this content, which you are providing to ZEE5 the shows that we made for?

Management: Balaji does not have any acquired content, so all contents are original, exclusive to us and I own IP and from September 1, 2020, there are certain shows, which is around 13 as we speak today are co-shared with ZEE.

Moderator: Thank you. We have the next question from the line of Rahul Jagwani from SKS Capital. Please go ahead.

Rahul Jagwani: How is the outlook for the TV business next year, it has grown pretty well in recent 9 months, how will FY2021?

Management: We expect 10% growth over the TV business that we end up on this March 31, 2020, probably 10% more, largely fueled by production efficiencies and cost control on four of our long running programs in combination with prospectively Naagin running longer and better management of costs.

Rahul Jagwani: On the digital piece there is a 55 Crores revenue in 9 months, so that is all ALT Balaji revenue or what is that?

Management: Yes, it is ALT Balaji.

Rahul Jagwani: What is the spilt of this 55, it is not ALT direct subscription, right?

Management: So, our direct subscription revenue for the year we will end our total revenue at 81 Crores out of which we expect 35 to 40 Crores to come from direct.

Rahul Jagwani: And then you are expecting this 81 Crores to double next year is what you say?

Management: Yes, so we have done that, first year we have got 7 Crores, second year we got 40, now we are 80 Crores, so we will go to around 150 Crores, but with our cost subsidy or cost base will come down, so it is a kind of breakeven at least two to three quarters in the next financial year.

Rahul Jagwani: Thanks.

Moderator: Thank you. We have the next question from the line of Roshan Shetty an Investor. Please go ahead.

Roshan Shetty: I wanted to understand this quarter we know that because of the huge success of Dream Girl, we have a good movie business, good revenue and good profitability or revenue in movie business, so wanted to know if the movie is not doing good, so in that case how much revenue proportion we get or profit is expected just want to know if the movie is not doing good, what can be expectation from movie business?

Management: Just ignore movie projects for the time being that will give you perspective correct, so what happens, TV business and ALT business, if the movie is zero, we should see the production hours which we have for TV, we are already looking at 800 plus hours this year, which virtually the relation remaining at the same level, so with the volume the revenue goes up and if I had the five shows which is a flagship shows continues with those kind of margin my profit will be much better than what we are seeing now or what we have seen last year. On ALT, we have clearly demonstrated how the cost is flowing now, with each quarter we expect cost to only go down, so it is not that only because of movie the numbers are looking good.

Management: If you look at the TV numbers it is 25 plus and loss of ALT is 16, so even if we do not take movies we are still in the clear and cash flow positive on the business.

Roshan Shetty: No, that I understand, because the Balaji Telefilms, TV business is a cash cow for the entire business, so just wanted to understand we are also getting into as our CFO mentioned that 100 Crores is every year invested in movies?

Management: Our capital deployed into motion pictures is restricted to 100 Crores and out of which we clearly see that four movies or three to four movies will come each year, certain cost have booked for the movies, which can released in the following years also, you have to lock talent today, the movie will get released two years hence so that is how you should see the movie business.

Management: Three of our next four movies are already pre-sold we have already achieved break even on them as we stand now.

Roshan Shetty: Understood.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to the management for closing comments. Please go ahead, Sir.

Management: Thank you for joining us on this call. We have had a great quarter, record quarter and profits, even if you include the losses of ALT and we hope to continue this wonderful performance over the next 5, 6 years at least, so thank you.

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

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