"Balaji Telefilms Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good afternoon, and welcome to conference call of Balaji telefilms organized by Batlivala and Karani Securities India Private Limited. At this moment, all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time. If you have a question, please press "*" "1". I would now like to turn the conference over to Mr. Yogesh Kirve. Thank you and over to you.

Yogesh: Thank you. Good afternoon to all the participants and thank you for joining in. We at Batlivala and Karani Securities are pleased to host this earning call for Balaji Telefilms Limited. To discuss the results and the business outlook we have the senior management of the company represented by Nachiket Pantvaidya group COO and CEO of Alt digital media entertainment, and Mr. Sanjay Dwivedi group Chief Financial Officer. I will now hand over to Mr. Pantvaidya for his opening remarks, which will be followed by a question and answer session. Over to you, sir.

Nachiket Pantvaidya: Thank you. Welcome to the conference call Balaji telefilms limited, we will be covering this evening the results for the quarter and nine months ended 31st December 2020. I will start with an update on our digital business Alt Balaji. This quarter, we saw the highest ever subscriptions being sold and that number stood at 1.6 million. And I'm pleased to report that now we have over 2.1 million active subscribers on the platform. This strong growth in subscriber addition is on the back of our continuous efforts to improve and widen our content library coupled with a unique marketing strategy targeting a lot of first time video consumers from tier two and tier three towns of India. This quarter, we added nine new shows taking the total number of original shows live on the platform to 74. We believe that AltBalaji today offers one of the most diverse content choices for its consumers. Meanwhile our focus remains on building content for Bharat which is called India 2.0 popularly. And with that in mind, we are ramping up our production capabilities to create a model where we can produce at least 30 to 36 shows a year to keep our consumers engaged and attract newer audience. One of our unique advantages is that through our TV, and movie business and access to the wider content ecosystem, we have an advantage of producing great content at lower cost when compared to market rates. For example, we can harness talent from our movie and our TV businesses to create a differentiated content offering as compared to the show's Balaji telefilms produces on TV. Our platform continues to see strong traction with almost 22,000 new subscriber additions per day. And given that a number of these are first time video consumers on the internet, we feel our deeper library of relevant Hindi content will allow them to sample and enjoy a lot more content at very affordable rates. Despite the plethora of competing content, we still see a very good engagement and retention metric, and believe that as our library strength increases, we will continue to see better subscriber metrics. As the Ott video streaming landscape in India gets stronger with widespread adoption into tier two and tier three India and requiring diverse and relevant content at affordable pricing we believe the Alt Balaji India's leading independent homegrown OTT platform will continue to drive growth in the category on the back of its strong content and most affordable pricing plans. Since inception, we have maintained an affordable pricing regime at under rupee a day. And we feel that has played an important role in driving the consumer adoption.

Coming to the TV business production has returned closer to the pre COVID levels with almost 185 hours of content produced this quarter. Our TV business had seven shows during the quarter. And of that four shows were running throughout the quarter, three new shows were launched including one for Dangal TV, and 2 shows came to an end after long runs. Overall demand for content remains strong. However, we are witnessing some softness in rates from the broadcaster's impacting the top line. Having said that, hit shows continue to command premiums. And as you're aware, Balaji has a strong record of creating hits we have a strong content pipeline for the coming quarters and remain confident that the rates will head up as the show's become successful. On the margin side, we continue to see some softness given the new launches, but that along with some cost saving initiatives adopted should help us on the margin front. Finally, on the movie business as COVID continues to impact the theatrical releases. And even though theatres have opened up for audience, they're yet to see the good traction in terms foot fall. We also expect to see a lot of rush by producers to target the windows for release and feel that the movie business would see some element of fluidity for the next 8 to 12 months. We were able to complete the sale of existing ready movies at a reasonable profit to digital platforms, and cycled the Capital without incurring any loss. We have a number of exciting projects and given the nature of COVID-19, we expect these to release over the next 12 to 18 months and hence believe it will be necessary to continue to follow a de risked strategy using pre sales and co-production agreements. We will keep sharing updates on these movies as we progress in the year. On the upcoming projects some of the notable ones are rewind, which will be directed by Anurag Kashyap, staring Taapsee Pannu to start shooting by the end of the month. Villian 2 starring John

Abraham and Goodbye starring Mr. Amitabh Bachchan. These will all start shooting in the march-april period. There are two more projects which are official adaptations and remakes, including the hit movie Ala Vaikunthapurramuloo. As you can see, we have many exciting projects coming up and we expect to have a good FY '22. We have a good share of presales and co-production agreements locked in place. All of these steps will ensure that our movie business in FY '22 is further de-risked and we can benefit from the upside in these movies. Overall, I think the first half was impacted by the pandemic and in q3 we saw content production coming back to pre COVID levels. This has allowed a lot of fresh content to be released both on TV and digital. This has also created a lot more customers and we will continue to see stronger engagement levels as the digital library grows deeper. I will now hand over to Mr. Sanjay Dwivedi, our group CFO to give you a quick update on the financials.

Sanjay Dwivedi: Thank you. Good evening everyone. I will now proceed to explain some of the key items this quarter and how we are looking at the business. On a headline basis revenue for the quarter is up 35% to 105 crores against 78 crores in the previous quarter. The improvement in revenues primarily due to better sales in Alt Balaji and q3 also had the recognition of the sale of movie Pagglait to Netflix. Looking at the digital revenue, some of you might be aware, our monthly billing rate at Alt Balaji used to be in the range of three to four crores but we are now running at close to 10 crores a month which is a tremendous improvement. I would also like to clarify that given the revenue recognition policy we recognize the revenue on sale of subscription over the life of the subscription pack. And this has resulted in nearly rupees 11.8 crore of revenue of this quarter being deferred out to subsequent quarters. On the gross margin front while our margins have improved from rupees 17.8 crores to 19.2 crores the margin percentage are down from 23% to 18%. The primary reason for the shortfall in margin percent is we launched three new shows this quarter and two shows came to an end. As we mentioned earlier, we operate a model where the initial few episodes have higher cost outlays and as the show progresses, the cost reduces thereby improving margins. We hope to see these show's return to the normal operating margins in quarter four of FY '21 itself and result in a significantly improved margin in FY '22. On EBITDA basis, the EBITDA loss for quarter 3 FY '21 was at rupees 24 crores against 12.4 crores in quarter 2 of fy '21. The primary reason for lower EBITDA was on account of increased marketing expense in Alt Balaji given the higher number of shows we launched coming out of the lockdown, we took a strategic call to increase marketing spend for a short period, which has resulted in a very strong consumer acquisition. Going forward we expect marketing spends to taper as our strong library plus unmatched content diversity drives revenue growth. As Nachiket discussed with capabilities expanding to create more shows, we will see the operating leverage play its roll and deliver a much stronger revenue profile against our committed overall cost of around 130-150 crores a year. Now looking at nine months figure, I would like to remind you that Q1FY '21 was a very difficult quarter for us, given the nationwide lockdown and associated challenges. In addition, last year, we had the hugely successful movie dream girl that resulted in a major uptick and skews the comparison against this year. On nine month basis revenue was at rupees 218 crores down 53% compared to 465 crores during the same period last year. The two main reason for lower revenues were that this year had 361 hours of content production in TV business vis a vis 625 hours last year same period. In addition, we have seen broadcasters drop rates and our average realization has fallen from 36.5 lakhs an hour last year to rupees 31.3 lakh an hour a drop of nearly 15%. In addition as I mentioned earlier FY '20 had the hugely successful movie dream girl which grossed over rupees 100 crore at the box office. Looking at the nine month EBITDA we moved from a positive rupees 11.5 crores EBITDA to a loss of rupees 62.7 crores as we had a lower contribution from our TV and movie business given the near zero activity in Q1 FY '21. In addition, dream girl contributed significantly toward profitability last year. One of the highlights this year has been our operating costs such as staff cost and our other overheads have reduced significantly and we have managed to operate at much lower costs compared to last year and hope to capitalize on this reduced cost based going forward. Finally, looking at our balance sheet, we are at zero debt company with good liquidity, we are well positioned with nearly 158 crores of investment as we enter into Q4. On TV, we hope to revert to a more normalized run rate of six to seven shows a quarter and margins. Movies will go on floor and release over the next 12 to 18 months, helping us realize some of the profits that are locked in this project. And finally, AltBalaji now nearly at 10 crores run rate should allow us to scale rapidly as more shows are added. I thank you all for joining us today. And now I would request the moderator to open the q&a session.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star one on your phone and await your turn to ask the question when guided by me. If your question has been answered before you're done, and you wish to withdraw your request, you may do so by pressing star and one again. We have first question from Kritika Agarwal from Newland Investment. Please go ahead.

Kritika: Thank you so much for the opportunity. First of all, I would like to congratulate on the highest subs sold, and also Alt has seen a very good pickup in terms of the shows launched and the number of subscribers. And my question was, how much of this growth is because of the new shows added this quarter compared to earlier this year? Or is this a category actually now growing so fast?

Management: Well, most of the subscribers acceleration that happens, happens with new shows. So I think when we see that shows are not launched, the level of 22,000 per day drops to around 8000 to 9000. So you know, you can say that about 60% to 70% always rides on the back of new shows. To give you a quarter wise subscription sold million is Q1 was 0.95, Q2 was 0.75, and Q3 is 1.64. That's the jump you see when you launch new shows.

Kritika: All right. So also on the overall industry side, we still see some new players coming in, especially making niche content in regional language. Does Alt plan to target audiences through regional content going ahead, given that you were the first to target Hindi, OTT specifically four to five years ago, and now everyone seems to be you know, making Hindi OTT content.

Management: I don't think we were the first one, everybody was making Hindi content, but we were targeting it at tier two, tier three always and the others are doing tier one, and they continue to do so. So my response to that is that we are trying to find a price point that is affordable to smaller towns in India. And that price point is less than a rupee a day. I think that's where we are having the right combination of mass content and mass pricing. If you're asking me about languages other than Hindi, right now we feel to get an ARPU of 100 rupees plus in a regional language sometimes becomes difficult. Couple of players have done it, but we don't see that happening so easily. We are right now at 140 ARPU, and therefore to maintain a consistent sustainable ARPU model that will become difficult. So we will venture into regional only about a year from now when we reach about 100 shows on our app. Currently, we are at 74.

Kritika: Okay. So, thank you so much I join back in the queue.

Moderator: Thank you, Miss Agarwal. We have next question from Mr. Varun Patni from Prospero tree. Please go ahead.

Varun: Thank you for the opportunity. So, we started with the liquid assets worth 239 crores at the start of FY '21 and now we are at 158 crores at the end of Q3 so that is effectively lower cash balance of 81 crores in nine months. Correspondingly, we have also posted a negative EBITDA of 63 crores in the nine month period. So, I understand that this is due to mix of two reasons, first is the pandemic and second is the cash burn at Alt. So, while the pandemic was a surprising and unanticipated event, we have been quite aggressive in case of Alt. So, I would like the management to give an open answer on the cash burn because at the current run rate, we will not be left with any cash in next two years does the management have a plan B to prevent such a scenario from happening?

Management: Okay. So, there are two-three things which we have to look at. COVID you have covered and accepted. Now, coming back to TV operation, you have 18% drop in top line and in the effective yield itself has contributed where our working capital gets stuck. On motion pictures as we have said, we have locked a lot of projects, which will come only to the theatre and other places next year. So our 88 crores of working capital is locked in motion pictures. And in Alt Balaji we have a capital commitment of 230 crores of content out of which we have already paid for locking talents and other players of worth around 68 crores, we have to keep building this library. Only thing is that because there was lockdown, we couldn't monetize it as effectively as we thought we should. But I think it's just a quarter away from that and we will reach that number very soon once we see the theatrical release of the movie.

Management: I don't know where you get this assumption that we are going to run out of cash. What is the basis for saying that?

Varun: Because the past figures suggest that.

Management: No, they don't. If you see the run rate, TV always contributes over 50 crores of EBITDA. Motion Pictures is de risk as far as we are concerned. It's Alt cash burn which was over 100 crores which has now come down to bare minimum. So, now my cash burn on Alt is closer to 10 cores or 8 crores in a month and it is depleting. So, as we speak my last quarter run rate of cash burn was only around 17 crores on a cash basis. What you are looking at PnL, it has also an amortization lag which comes from the earlier years.

Varun: No, I understand that on the PnL front, I understand but...

Management: You have to see a direct method of accounting of cash to understand this.

Varun: Okay. And as you mentioned that going ahead, you're locked in certain projects and stuff. So would it be so that the margin improve in the coming quarters because of that?

Management: One, TV margin should improve because we have launched three new shows. Two, we are expecting broadcast to give us the additional rates so that it improves our effective yield. And once this movie thing gets stabilized and when the theatre open, I think we should see a better number there. Because we are already pre sold at a very good price for these movies split. We don't greenlit movies unless until we have a clear profitability numbers on it.

Varun: Okay. The other question I had was that with respect to Zee 5, we have booked the revenue of eight crores in the nine month period and the PnL production expenses have been 68 crores in this nine month period. In this context, I believe that the contribution from the Zee 5 is very small and in exchange we are losing the exclusivity of our platform.

Management: Only 10% of the Zee 5 contribution gets booked on the top line and Sanjay will illustrate that. We have been speaking on this, what happens is what you see as a top line contribution of Zee 5 is only 10% of what you have sold and also as per Indian accounting standard you keep accruing it. It is not when the shows go live that is when your account for this 10% so there is always a lag between actual show going live and what your account for...

Varun: Okay, so but the cost will also come in future quarters, right. So I believe this is what the picture would look like in coming quarters also.

Management: It's like this. For every 100 rupees spend on content 50 rupees is reimbursed by the Zee 5. Okay. So straightaway that doesn't come into your p&l that goes into the receivable. Okay, so inventory gets depleted, you show that as a receivable. 10 rupees is something which we account as a revenue.. That's the thing.

Varun: Okay. Okay. Thank you.

Moderator: Thank you, we have an question from Mr. Ankush, Balani, from AB Advisors. Please go ahead.

Ankush: Good evening, everyone, and congratulations on Crossing 2 million subscribers this quarter. So, my question is, we added 1.6 million subscribers this quarter. So what was the, drivers behind that this addition? And how do you see this growing, moving forward,

Management: See even as we speak, we are seeing that our revenue rates, so let me talk from a revenue perspective and then also talk about subscribers. We have seen an accelerated acquisition of subscribers post COVID, because throughout COVID, tier two and tier three towns got exposed to internet, but we could not put out shows for them. Because obviously, production was all stopped. Now that production has started and we put out at a run rate of three shows a month, we are seeing a huge upswing of tier two, and tier three audiences coming onto our platform and paying. In terms of revenues also, you can see there is a significant upswing, and we have recorded, highest revenue in December. So it's not just that we are we are getting subscribers to sample us and go, and we're also getting them to pay and stick on for at least a period of the quarter that we have. So I think we are poised to exploit the new influx of viewers that are coming in from mass India by keeping our pricing affordable and putting content that they can understand in a language that they can understand.

Ankush: Sir my question was coming to that, on the on the Revenue front . So we are clocking around 10 crore run rate every month now. So how are we confident to keep it at this level or keep it growing above this as well, or what would be the outlook on that?

Management: So we are definitely confident of at least maintaining at this level. You know, as we go ahead, this will definitely grow. For every 10 shows that we add, we see an incremental burst. So for the period of 10, it stays as a run rate, our past data showed that it is moving in batches of 10-11 shows. So until 10 shows comes up that 10 shows has the run rate constant and after that 10 shows we start exploiting the addition amount then it suddenly takes a surge upwards. And we also retain the subscribers that come on board, not all the subscribers get churned 100%. So that keeps adding to your subs base.

Ankush: What would be our retention rate then?

Management: Our churn out rate is anywhere between 60 and 65%. So the rest get retained. But this is, you know, it's not cancellation of orders. This is just after their subscription is elapsed. That's the retention we're talking about. So nobody's cancelling the subscriptions that they've got, they usually go towards the end. So if somebody takes a three month subscription, or a six month or a three year they end the subscription and 35% of that definitely gets retained.

Ankush: Sir you keep talking about Bharat content that you're that you're creating for, very targeted audience. And we see a lot of content as well that, , you can see that there are many other apps like YouTube where there is free content and the content is more or less similar. So how do we plan to grow and make money in such area where I think we are the only ones we're actually charging, I know we are charging very affordable rate, but we are charging other than the other peers are not really charging anything.

Management: So, let me give you some data, these other players not charging anything has been there for the last five years. The first year of Alt we made a revenue line of 7 crores, second year we made about 40 crores, third year we made 77 crores and this year we are already close to that last year numbers, right, we'll be reaching that number soon. So, this question about how to make money you see it in the number. Every time we are making money, so there is no doubt that we are making money. Secondly, if we are providing content that is, in your view, which is highly subjective you say it's similar content. But for somebody to actually pay and to get an Indian to pay, it means that the content is not similar. So the proof actually lies in the data. We can sit here and say its same content but it's not true because actually people are paying and every month, we are seeing a rise in subscribers. So instead of having a subjective argument, if you look at numbers, they are paying. When we started off in the first year, you know, we hardly had any revenue, we had 7 crores of revenues, out of this direct revenue would have been 4 crores or 3 crores. Today, we are clocking nearly 12 times that amount in direct revenue. So you know, therefore, people are seeing the difference in creativity, people are seeing the difference in affordable pricing. And as our library grows, we are seeing increasing marginal returns.

Ankush: Okay, so just one more question if I may ask, at what subscriber level or monthly run rate, we will be able to, clock in on a profit on the Alt side?

Management: 14 crores. The number of subscribers, I don't know, because you have to figure out you know, what is that ARPU level. But you know, if we can build a revenue base of 14 crores, that should be good.

Ankush: Okay. Thank you, sir. I'll get back.

Moderator: We have next question from Mr. Yogesh Kirve. Please go ahead, sir.

Yogesh: In the Alt Balaji we saw a bit of a spike in the marketing expenses. So, what does that pertain to, and I understand it is a sort of a one-off and the figures would revert to the previous quarter levels going ahead?

Management: No, the figures are not going to revert. This is not one off, it's just that in the first two quarters, for example, we were low on marketing, because we didn't have new launches, we have had nine launches. And therefore, launch or more than marketing, I could call it consumer acquisition expenses have gone up. What we are finding is that we are able to acquire consumers at 70 rupees and we are getting an ARPU 140. So you know we are practically operating at a 70 rupee plus per subscriber that we acquire. And therefore, we are intending to accelerate this, of course, only dovetailing with number of shows launched.

Management: Also, there is a lag in which we account for expense and revenue, due to the accounting standards. We book 100% of the marketing spend, when we actually commit to those expenses, whereas the revenue gets apportioned over a period of the subscription period. So 11 crores of revenue will get accounted in the coming quarters, whereas all the expenses relating to that marketing spend has been accounted in this quarter itself.

Yogesh: Sure. And secondly, related to the Alt Balaji breakeven, you've talked about this revenue threshold for actual impact. But in terms of timeline, when can we expect to cross the threshold? Whether something possible during a FY '22?

Management: Yes it will happen in FY '22.

Yogesh: Within FY '22 are we looking at more like a second half or it's...

Management: I think it will be earlier than that. You know provided of course, there are two or three to three factors. One is that we keep continuing to put out shows the same way that we are doing right now, which is definitely going to happen. So that's one and secondly, internet continues to remain free in India or at very low rates. If operators start hiking their rates or something happens on that front, then you know, those consumer acquisition might slow down because people want to watch the shows without paying anything for internet. So you know, these are two important factors. The first one is controllable from our end, and we will launch at the rate of roughly three shows a month. But the second factor is something that is environmental, and you will have to closely monitor regulatory environmental factors

Yogesh: Okay. So, last question I had related to the movie. So the theatrical ecosystem still doesn't have a good visibility in terms of the occupancy and footfall it could reach. So when we are starting with our new projects, I think 3 movies are going into production in March and April. So what sort of plan is there? if the theaters outlook does not improve, so whether the digital release would be the plan B and whether that generates the adequate return ratios for you.

Management: I think by preselling the rights of most of our movies, we are already covering about 80% of our production costs. Now what we have to see with theatres is that how do we take the marketing which is called P&A, costing movie terminology, and the extra 10% of production costs how do we recover. So that much is not at stake, in terms of release. Our first release actually is going to happen only in the beginning of next calendar year. In Jan-Feb-March of next year. So we do have a lot more time to study that situation. Meanwhile, we have de risked the business by advance sales of rights.

Yogesh: Sure, thanks a lot for the responses on go back into queue.

Moderator: Thank you. We have next in queue. Miss Kritika Agarwal from Newland Investments.

Kritika: I had a couple of questions on the TV side. On TV, we're seeing a return of broadcasters' revenue and profitability, which should be good for content producers and other ecosystem partners. How soon do you think you can take your rates, if I recall a few years ago some weekend shows were up as high as like 45 to 50 lakhs an hour? But now we are closer to 35 to 40 lakhs. So can you throw some light on that?

Management: Well, one of the things that we have to see is that during the pandemic, there has been a transition from traditional broadcasting to internet viewing on OTT apps and on the websites, etc. Now, the audience as they come back, you know, once they all come back to TV, if they choose to do so, then we will see a normalizing of advertising three months after that, because typically the way advertising cycles work is at this moment you get the audience it doesn't go up immediately. It'll take two three months to come up. So I think there is a lag cycle of six months from today, when we will see everything normalizing for producers or for broadcasters, etc. While there is growth, if you see normalization, its compared to the previous quarters, there's definitely growth but the normalization has to happen over the next six months.

Management: And to answer your question whether you can go back to 45 lakhs or 50 lakhs I think currently we don't see that situation. We will be happy if we can just go back to the pre COVID level relation per hour which should be another five six lakhs adding to that. 34-35 is what we think if we reach that level.

Kritika: Also TV has seen a good ROCE and is a cash generating business, but at a similar scale of 250 to 300 crores. At any plans to like to bring scale into this as it could be a good platform to deliver free cash for new projects is it because we can't create more than 5-6 concepts or something else?

Management: What happens is that primetime is limited between 8 and 12 o'clock; or 8 and 11 o'clock today. So there are only six slots and we have seven shows. So you know, we have shows at every slot, and then t nobody will want to have one the same slot with having two shows of ours. So there is a limitation from the consumer usage and also for that.

Kritika: That was helpful. Thank you so much.

Moderator: Thank you. We have just received one question from Mr. Varun Patni from Prospero Tree. Please go ahead.

Varun: Thank you for the follow up. Just wanted to understand the thing about the digital business. So we see that another player, MX Player they are giving the platform as free, and are earning revenues through advertising. So what is the kind of feasibility of such a platform versus ours?

Management: I would not be able to comment on that. We can definitely say that what we are planning to do is that we have 150 crore cost base every year anywhere between 150 and 170. And if we start clocking of 14 crore revenue average every month, we are at least neutral on that and we'll break even. Right now we are at an average of around 10. So that's the way for us to go to make this business successful on a very, very basic thumb rule level.

Varun: Right. Okay. Thank you.

Management: Thank you for joining us. Please continue to, you know, be safe in these times. And keep watching Alt Anything which is left unanswered, you can always send an email or call us. We'll be happy to answer.

Moderator: Ladies and gentlemen, this concludes your conference call for today. We thank you for your participation and for using IJunxion conference service. You may now disconnect your lines and have a great evening ahead. Thank you.

Transcript edited for readability

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