



Zee Entertainment Enterprises Limited

Q2 FY22 EARNINGS CONFERENCE CALL

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Edited Transcript

MANAGEMENT:

Mr. Punit Goenka – Managing Director and CEO

Mr. Rohit Gupta – Chief Financial Officer

Mr. Anshul Jain – Investor Relations



Moderator: Ladies and gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q2 FY22 Earnings Conference Call. 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anshul Jain. Thank you and over to you sir.

Anshul Jain: Thank you Stephen. Hello everyone and welcome to Zee Entertainment's Q2 FY22 earning discussion. We have with us today our MD and CEO Mr. Punit Goenka, along with senior management team of Zeel. We will start with a brief statement from Mr. Goenka, followed by statement on operating and financial performance by Mr. Gupta.

We will subsequently open the floor for question-and-answer round. We would request participants to restrict their questions to Q2 FY22 performance. We will not be able to provide any additional update from whatever is available in public domain on proposed merger with Sony and Invesco's requisitioning for EGM. I would also like to remind everyone that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in the consumption or the risks that we face. We will begin now. Thank you and over to you PG.

Punit Goenka: Thank you Anshul. Good evening everyone. Thank you for joining us today. I hope you and your loved ones had a wonderful Diwali. Before we speak about the company's performance during the quarter, I would like to share a quick update on the proposed merger between Zee and Sony Pictures Networks India. Further to the in-principal approval received from the board, the due diligence process has commenced and is in steady progress. We are confident that this process will be completed within the stipulated time lines, or even before that, post which we will move forward with the next steps as mandated by the law.

While our CFO, Rohit Gupta will take you through the granular details of the financial and operational performance of the company, let me give you an overview of the business environment. The second quarter has been one of recovery and revival for us and the industry at large. The second wave of the pandemic had a sudden surge in cases, served as a disruption to the growth momentum in the previous quarter, and some effects of that also spilled over into the first half of the second quarter. But we are glad to note the increase in vaccination drives and reduction of cases have led to



gradual re-opening of business activities across the country. This has provided an impetus to the consumer and to the overall advertisers sentiment resulting in green shoots for macro-economic growth. Amidst this scenario, the underlying trends seen in the content consumption during the lockdown remained as before. We will elaborate on that further.

Viewership on TV and digital media streaming platform continue to record new levels of growth. Furthermore, the launch of high impact entertainment properties and engaging films across platforms has encouraged advertisers to increase their strengths across genres. As per our plans highlighted in the previous quarter, we launched 30 plus shows across our channel leading to a gradual recovery of viewership in certain markets where we had lost share. On ZEE side, our new strategy continues to bear fruit as we remain in the growth mode for the business. Noteworthy efforts have been taken to improve the digital platform growth across key aspects like content and user experience, which have led to higher user activation and monetization. Globally the platform continues to post steady positive growth across markets, including the United States where we launched in the previous quarter. We continue to invest in our core businesses to further ramp up our offerings to create compelling entertainment for our viewers across the globe.

The impasse around subscription revenue on the linear side of the business continued during the quarter leading to a marginal decline. That said, we had announced our channel pricing in October in line with NTO 2.0. But I would like to inform you that in the latest communication that the Telecom Regulatory Authority of India has allowed broadcaster's time till 31st December 2021 to revise and publish the RIOs. The revised implementation date is now 1st April 2022. Like I have maintained earlier as well, after the initial few quarters of disruption post implementation, we will be back to delivering healthy growth in subscription numbers.

Overall with the receding fear of an anticipated third wave, the green shoots in demand are clearly visible. The reopening of malls, theaters and other economic and leisure activities, coupled with the festival season we certainly see advertisement spends bouncing back in the subsequent quarters. We are hopeful of a gradual recovery in theater occupancy, and with the slate of films lined up for release from ZeeStudio will further serve as a positive factor for us in the subsequent quarters. We remain optimistic that if this trend continues, advertising should surpass the pre-COVID levels and swing into healthy growth mode.



Post of the impact of COVID in the initial part of the quarter, the creation and availability of original content, along with the relentless execution across the business has led to revenue and EBITDA growth sequentially and on a year-on-year basis. We expect this robust growth and performance to continue in the coming quarters. Overall there are very clear indicators pointing toward the sharp recovery for the economy and industry at large. I remain confident that the improved business sentiments will provide a strong growth momentum for the sector, helping businesses bounce back to pre-COVID levels by the end of this fiscal.

On that note I would like to hand over the session to Rohit to take you through the financial and operational performance of the company. And I look forward to interacting with you during the Q&A session. Thank you, over to you Rohit.

Rohit Gupta:

Thank you Punit. Hope all of you are doing well and taking good care of yourself. The second wave of COVID took us by surprise in the first quarter of this financial year, when things were starting to normalize. We continued to see the residual impact of the same in the first half of the quarter as well. As number of cases came down sharply and the pace of vaccination drives accelerated across the country, we saw strong bounce back from advertisers in second half of the quarter. The accelerated progress in the pace of vaccination, release of pent-up demand in the festival season provides much needed upside to grow revenues. During the quarter, we continued to be India's strong number two TV entertainment network. The viewership share for the quarter increased by 70 bps to 17.7%. This increase was on account of (+) 30 new launches across the market. These new launches helped us increase share across key slots. While the performance in markets like Bangla, Telugu, Kannada, Oriya continues to be strong during the quarter, in Hindi, Tamil and Marathi market our share should improve further based on compelling new launches planned in Quarter 3. We will continue to launch new shows across the market to drive share gains. New channels now contribute about 1.2% of the total network share.

ZEE5 strategy outlined in previous quarters is well on track, and we have started seeing robust growth in operating as well as financial metrics. Global MAUs and DAUs as on September 30th, stands at 93.2 million and 9.3 million respectively with watch time of 186 minutes. During the quarter, we lost 13 originals across languages. We have a compelling slate of content lined up in H2. Revenues for ZEE5 during the quarter grew sequentially by 17%, to Rs. 1,305 million. EBITDA losses for the quarter stand at Rs. 1,720 million. ZeeStudios during the quarter released five movies,



including theatrical release of three movies. We saw encouraging response for theatrical releases in the states where we were allowed to release. With most State Governments gradually lifting the restrictions on theater opening we remain confident of stronger performance in H2 with strong pipeline of movies.

Now coming to the financial performance for the quarter. We have witnessed healthy recovery in ad-revenues towards the second half of this quarter. As revenues for the quarter grew by 17.6% sequentially and 20.7% worldwide. As revenues for H1 stands at Rs. 2,159 million, up 52.3% on year-on-year basis. Subscription revenue for the quarter stands at Rs. 7,885 million, marginally down on year-on-year basis. Overall revenues came at Rs. 19,788 million grew 14.9% year-on-year. Consolidated revenues for H1 FY22 stand at Rs. 37,538 million, up 23.7% on a year-on-year basis. The EBITDA for the quarter came at Rs. 4,121 million with the margin of 20.8% on the back of higher ad sales. EBITDA for H1 FY22 came at Rs. 7,562 million with a margin of 20.1%. PAT for Q2 came at Rs. 2,661 million, up 27.4% quarter-on-quarter and 185% year-on-year. PAT for H1 stands at Rs. 4,749 million, up Rs. 3,524 million from H1 FY21. The cash and treasury investments of the company as of September 21 for Rs. 16.2 billion post payment of equity dividend of Rs. 2.4 billion. The cash and treasury investments include bank balance of Rs. 7.8 billion, fixed deposits of Rs. 3.4 billion, Mutual Fund investments of Rs. 4.5 billion and NCDs worth 438 million.

Over to you Anshul.

Anshul Jain: Thank you Rohit. Stephen we can now begin the Q&A round.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Naval Seth from Emkay global. Please go ahead.

Naval Seth: My first question is on ad revenues. If I look at performance of your peers, that seems to better off as compared to yours, if I look at it on 2-year CAGR basis. Would you attribute that weakness only to market share loss or the yield have corrected significantly on account of again the same reason, or I am missing something over here? So, that is my first question.

Rohit Gupta: So, Naval like I said, we have seen ad revenues bouncing back in later half of this quarter and advertisers have started spending for growth. We expect that this growth will continue and while there were softness in market shares in some of the channels like I already mentioned in my opening commentary, we have taken steps to correct



that. What we are now expecting is with this festive season coming in, we should see bounce back in ad revenues in H2.

Naval Seth: And one point I missed out what Punit stated that ad revenues will be at pre-COVID levels. Where you talking about industry or Zee specifically, and what would be the timeline for that?

Punit Goenka: I will be referring to H2 for the industry and for Zee. Both will be in line with the pre-COVID level numbers.

Naval Seth: And lastly on ZEE5 now can you give some guidance on number of show launches because although now production is kind of back to normalized level and you have launched 13 shows in Q2 so, what is the number or pipeline for H2 for this year?

Punit Goenka: Rohit, do you have the numbers?

Rohit Gupta: No, we have a very healthy slate Naval for H2. Actually, the number in H2 will be higher than H1 and because of COVID, some of the originals got pushed to H2. So, the number will be more than 13, and it will be about 17 to 18.

Naval Seth: Per quarter basis you are saying in H2?

Rohit Gupta: Yeah in Q3.

Moderator: The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on your movie production business. So, we are seeing very good pent-up demand for example Suryavanshi and in south India also Avante. So, I want to understand the pipeline of movies, potential for the ZeeStudio next few quarters if you could discuss, because now things are almost normalizing and capacity constraints also going away. And one of the other listed South Indian broadcaster has prioritized clearly, the movie production over the OTT. If given a choice, would you also prioritize movie production in the near-term medium-term over the OTT content? I do understand the general answer that both are important, but given a choice and will there be slight inclination to tap more the movie production side?

Punit Goenka: So, first and foremost, we have a very healthy pipeline of film releases lined up in the H2 of this year. This includes a very healthy skew towards the regional languages, and when I say regional languages, I mean covering both the Northern region as well as



the Southern regions. Also the slate is from A+ movies down to even mid-size, low budget films. We do expect that it will be very healthy returns for us in the coming H2 from the ZeeStudio business. On your second point on re-prioritizing our business towards the studio model at the cost of the ZEE5, no we are not going to do anything like that. We are focused very much on ZEE5, that remains our top most priority as a company and we will continue to focus on that. ZeeStudio business as an independent plan and we believe that both will co-exist, and ZeeStudios is a very critical strategy in the success of ZEE5 and the linear business. And therefore, these are very complimentary to each other rather than against each other.

Abneesh Roy:

One follow-up on ZEE5. So, ZEE5 revenues finally good pickup quarter-on-quarter. It had been stagnant in that broadly Rs. 95 to Rs. 110 crores revenue. It is a good scale up in spite of cutting the prices. So, my question here is essentially, what is going right here? Do you see this kind of a quarter-on-quarter scale up further every quarter? Normally e-commerce start-ups or digital start-ups are seen like that. So, that is one bit. Second, now with so much of confidence and so much of aggregation on Sony-Zee merger won't OTT see some back seat given ultimately two OTT apps for Sony-Zee won't make much sense. So, is there any dilution in aggression towards ZEE5 because of the impending merger?

Punit Goenka:

Well Abneesh, until the merger doesn't happen, things remain as it is. So, life is normal, there is no change in thinking. We will continue our aggression on the ZEE5 as it is. Can you repeat the first part?

Abneesh Roy:

Quarter-on-quarter scale-up of revenue in ZEE5 is good, it has finally broken out. But can we look at this kind of a quarter-on-quarter scale-up, going ahead or is it more likely to now remain stable at that Rs.130-Rs.135 crores cores revenue quarterly?

Punit Goenka:

Certainly not Abneesh. You will see scale-up of revenue quarter-on-quarter. I can't comment from one quarter to another quarter. But certainly, on an ongoing basis, you will see the revenues of ZEE5 growing leaps and bounds.

Abneesh Roy:

Good to see some market share improvement, but still it is the well below your past averages. So, if you could discuss with the new content some of the good things which has worked in your three laggard channels. And normally Zee grows faster than industry if your flagship channels etc. have seen some market share erosion. Currently are you seeing some growth slower than the industry growth rate in terms of advertising?



- Punit Goenka:** Abneesh, please don't call it laggard. Every child goes through some problems.
- Abneesh Roy:** But it is a flagship channel. So, it becomes very important.
- Punit Goenka:** Yes, it does. I understand that. So, it is a child and it is having some problems. We are fixing those problems and I am quite certain in the coming quarter itself you will see that rebound happening on the flagship channel and the other challenge as well. And as you rightly said we will endeavor to grow faster than the industry normally does. So, the turnaround will be as usual in the Zee style. But certainly first we have to get the content right. You must have already seen the kind of content lineup we are bringing including SaReGaMaPa and some of the other key properties that we have lined up for not just Hindi, but even for the regional languages. So, I am confident that in the coming quarters you will see a significant improvement.
- Abneesh Roy:** And one last follow-up on advertising. So, currently every sector is seeing either a 10 year high or a 40 year high in terms of cost inflation and FMCG is 55% of your advertising which is seeing a very-very high gross margin pressure. So, I am sure some sectors will revive because of the normalcy in life coming back. But if 55-70% say, of your advertising is going to see gross margin pressure what is the feedback you are getting from your advertisers next 2-3 quarters? Because it is looking very tough on the advertising sentiments.
- Punit Goenka:** Well at the end of the day, it is a matter of share of voice, right? I mean, if one sector or one advertiser from that sector goes after share of voice, others will have to follow. But I don't want to double guess their business strategies etc. As of now we have no indications that they are going to be pulling back. We are getting all the indications that they do want to come back spending to the pre-COVID levels, if not higher than that.
- Moderator:** The next question is from the line of Arun Prasad from Spark Capital. Please go ahead.
- Arun Prasad:** My question first is on advertisements spends, the A&P spends in the P&L. It is substantially higher as compared to base quarter or even sequentially. Any one-off in this? You did mention that in the presentation that it is mainly on investments on ZEE5. Can you give more color on this whether it will remain at this level or is it some kind of a one-off only in this quarter?



- Punit Goenka:** No Arun. So, if you look at the earnings release, we have had almost 38 launches on the linear side, and 13 on the ZEE5 side. So A&P will remain higher for at least another quarter or two as you will see higher spends happening for the company in this financial year and then you will start seeing stabilization happening to that. So, this is directly in correlation with the content strategy and launch strategy of the content across various geographies and languages.
- Arun Prasad:** So, this will remain at this level even though the revenue hasn't caught up to the pre-COVID level. Or is it the effort to bring the revenue up to the pre-COVID levels? How should we look at it actually? Because the top-line hasn't kept pace with ad spends.
- Punit Goenka:** Arun, generally in our business the revenue has a lag with content launch, because we are dealing on 13 week cycles with the advertisers and the agencies. So, that is the general lag that we see. Rohit also talked about that we have a strong lineup of content to be launched in Quarter 3, both on the linear side and Quarter 4 on the digital side. So, that is going to take a lot of the A&P spends and we are certain that as and when the content performs, and it will perform, the revenue lag will go away and you will start seeing the revenue tracking a similar trends. Of course, not that every quarter is going to see 30 to 40 launches going forward. So, therefore there should be some stability in the next financial year as I said.
- Arun Prasad:** The second question is on ZEE5. There is an addition of 2 million DAU (Daily Active Users) sequentially. How much of this is influenced by the US business launch? Little more details on that, or can we expect similar net ads quarter-on-quarter sequentially from here onwards?
- Punit Goenka:** No, I don't think we should be predicting net ads on a quarter-on-quarter basis. It will be too premature for us to start getting that kind of a guidance. Our endeavor will be to continuously grow the business. United States, as you will agree, of that 9.3 million DAUs will be a fraction because a large part of that, or a significant part of that comes from India. The population outside the country is what it is, we all know what that number is. So, therefore the number is predominantly Indian revenue.
- Arun Prasad:** So, what exactly then right during this quarter or to result in this given percentage sequentially it has grown. Even the MAU numbers have grown very well. So, can you just throw some color what exactly went right this time?



Punit Goenka: As I said in my opening remarks, two things that we have been working on. The strategy was on focusing on the platform which is the user experience and user interface, and the content line up, both have worked well for us, for us to have delivered these kind of numbers. And this growth is not just in this quarter. If you look at we have been growing sequentially over the last three-four quarters consistently both on MAUs and the DAUs.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: Sir, the revised tariff that we have announced in order to comply with NTO 2.0, do you think the hike taken is sufficient to kind of to re-coup the loss of revenue that can come from weaker demand of bouquet as most popular channels will now be sold ala carte?

Punit Goenka: Well, certainly Mr. Joshi, we have taken all that into account before deciding our pricing. So, in our experience and wisdom that should work to offset any revenue shortfall that we may have. But time will tell once we go to the market with it as to whether we are right or wrong. But in our wisdom and experience this should be something that will work.

Jinesh Joshi: Can you share what is the current revenue mix in terms of bouquet and ala carte?

Punit Goenka: Oh sorry. Rohit? I don't think we will have that immediately.

Rohit Gupta: I can take this with you one-on-one. I don't have that number off hand.

Jinesh Joshi: One last bit from my side, I think we are also planning to launch quite a bit of new shows in Q3. In this quarter and you highlighted we have launched 30 plus new shows. So, any number you have in mind which you would want to share for the upcoming quarters?

Punit Goenka: I think for the upcoming quarter, the number would be in the same range Mr. Joshi. It will be about maybe 28 to 30 shows, across languages.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: So, a few questions here. First of all on the subscription side, now international subscriptions with the OTT launches in various countries...we are still in the ramp up



mode but at least the initiative is there to be on a global basis. What are your thoughts on the international subscription revenue? Do you think this will get largely transferred to ZEE5? Your thoughts there, Punit.

Punit Goenka: Well, the market to market will differ Ankur. It is not one glove fits all. For example, in United States we have taken a conscious decision that we have gotten off the largest linear platform and focusing purely on ZEE5. So, there certainly our endeavor will be to move towards ZEE5 strategy. The other markets we have a complimentary strategy of continuing the linear distribution, as well as the digital business. So, we will play this out market by market, and it is not something that is an overnight switch on or switch off. It will be done sequentially market by market as the operating team sees as the best strategy to go forward.

Ankur Periwal: My question is going directly in the international market through the OTT route, let's say in US versus the distribution model right now, will this give more value accretive to you on a yield per user basis?

Punit Goenka: Yes. In the short term it will be value dilutive because you will lose the base that you were enjoying being paid by the B2B platform. But eventually we expect that the yield will be much higher and much better for us going forward, because it is a direct customer that we own rather than owning through a B2B platform.

Ankur Periwal: Secondly, on the advertisement side now, while you are still down on a 2 year CAGR basis, how far have we reached in terms of recouping the ad deal correction that had happened over the last couple of quarters?

Rohit Gupta: Like I said, we are clearly seeing ad revenues coming back in the second half of this quarter and we are also working like on the ad yields as well. And H2 of this year, we should see a growth both over FY20 levels of H2 and FY21 levels of H2.

Ankur Periwal: Rohit, if you can maybe highlight on the yield basis. Also, currently maybe due to the festive season, from a volume use perspective are we more or less fully utilized across the network?

Rohit Gupta: Yes, we are fully utilized across the network and on yield basis we are working on the yield improvement with our advertisers. So, that is improving as well.

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



- Kunal Vora:** Can you share thoughts on subscription revenue growth in FY23 once the NTO 2.0 gets fully implemented? How are you thinking about FY23?
- Punit Goenka:** Now that the implementation itself is postponed to 1st April 2022, it is still early to predict what 2023 will look like. Because until we go to the market with the plan, we will not know the outcome. But I still believe that we will see some disruption in the maybe a quarter or two, and then things should stabilize and growth should come back. And I have always maintained that post the disruption, the growth will be back to the high single digit kind of number for the industry.
- Kunal Vora:** Next on your thought on margins going forward. When are you looking to get back to 25% and whether getting back to 30%, which was the earlier target, that is realistic in the medium term or maybe getting back to 25 or 35 seems difficult now?
- Punit Goenka:** First step-by-step Kunal. So, 25 is the first step for us to get to. But we will be able to guide you better at the end of next quarter once we have seen the full color of the advertising coming back in or not. So, give us one more quarter and we will come back to you with our guidance on that when we talk next quarter in January.
- Kunal Vora:** Lastly, if you can update us any details on the Sony deal. Any hurdles you expect from your largest shareholder, any possibility of an early closure, and whether there could be any need for any change in terms? If you can provide an incremental insight on the Sony deal.
- Punit Goenka:** Nothing that I can share Kunal. If you missed my remarks, I only said that after the in-principal approval of the Board that the due diligence has commenced. It is proceeding very well on track. We are very confident of getting it closed well within the timeline, if not before that. So, we are working diligently on that. We will come back to you with more details once we have that.
- Kunal Vora:** Are you seeing any legal roadblocks or are the path is clear assuming that the two shareholders agree with the terms.
- Punit Goenka:** As long as the two shareholders agree to the terms the path is very clear. Why should there be any legal hurdles. As far as the other shareholders go they will have time to vote for it.
- Moderator:** As we have no further questions, I now hand the conference over to Mr. Anshul Jain for closing comments. Over to you sir.



Anshul Jain: Thank you everyone for your interest in the company. Should you have any further queries, feel free to reach out to us. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Zee Entertainment Enterprises Limited that concludes this conference. Thank you all for joining us. And you may now disconnect you lines.