Extraordinary Together

November 17, 2023

The Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai 400 001
BSE Scrip Code Equity: **505537**

The Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE Symbol: **ZEEL EQ**

Dear Sirs,

Sub: Transcript of the conference call

This has reference to our communication dated November 9, 2023 and pursuant to the provisions of Regulation 46(2)(oa)(i) read with Schedule III of Part A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), the transcript of the conference call held on November 9, 2023, on the Company's performance for the quarter and half year ended September 30, 2023, is enclosed herewith. The said transcript is also available on Company's website at:

https://assets.zee.com/wp-content/uploads/2023/11/17173111/Q2-FY24-Earnings-Call-Transcript.pdf

This is for your information and record.

Thanking you,

Yours faithfully,
For Zee Entertainment Enterprises Limited

ASHISH RAMESH AGARWAL

Digitally signed by ASHISH RAMESH AGARWAL
Date: 2023.11.17 19:59:42 +05'30'

Ashish Agarwal
Company Secretary
FCS6669

Zee Entertainment Enterprises Limited

Q2 FY24 CONFERENCE CALL

November 09, 2023

Transcript

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Earnings Conference Call of Zee Entertainment Enterprises 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. Mahesh Pratap Singh, the Head of Investor Relations for Zee Entertainment Enterprises Limited. Thank you, and over to you, sir.

Mahesh Singh: Thanks, Enzo. Hello, everyone. Welcome to our Q2 FY '24 earnings discussion. We hope you had an opportunity to glance through our earnings. Today, we are joined by our Managing Director and CEO, Mr. Punit Goenka, along with the senior management team. We will start the call with opening remarks from Mr. Goenka, followed by commentary on operating and financial performance by Mr. Rohit Gupta, our Chief Financial Officer. We will subsequently open the floor for questions-and-answer session.

Before we get started, let me remind everyone that some of the statements made or discussed on today's conference call will be forward-looking in nature and must be viewed in conjunction with risks and uncertainties we face. The company does not undertake to update any of these forward-looking statements publicly.

With that, I'll now hand the call over to Mr. Goenka for his opening remarks. Over to you.

Punit Goenka: Thank you, Mahesh. Good evening, everyone. I hope all of you are doing well and are gearing up for the long Diwali celebration weekend. Thank you for taking the time out to join us this evening. I am pleased to connect with all of you, as we discuss our Company's performance in the second quarter of the financial year 2023- 2024. Let me give you a macro-level overview on the industry and our performance during the quarter gone by, post which our CFO, Rohit Gupta will take you through the financial and operating metrics.

Before we begin, let me share a quick update on the proposed merger with Sony. As you all must have noted, during the quarter, we received an approval from the Mumbai bench of the Hon' National Company Law Tribunal (NCLT) for the Composite Scheme of Arrangement. From our perspective, we are committed towards ensuring that all points in the Composite Scheme of Arrangement are duly addressed. We recognize the value that this merger holds, and our focus remains on unlocking this opportunity for all the shareholders.

Coming back to the Company's performance - let's begin with the movies segment. The second quarter brought in a lot of excitement for the industry at large, with audiences returning to theatres and movies delivering a blockbuster performance at the box office. We witnessed a good quarter on the back of an extremely encouraging response received for our films. These included 'Gadar 2' in Hindi, 'Bro' in Telugu and 'King of Kotha' in Malayalam, which boosted our overall performance. Zee Studios is a strategic piece of our portfolio, and it plays a very synergistic and complimentary role in the success of our linear and digital businesses. Our investment focus continues to remain sharp on films across all languages enabling Zee Studios to emerge as a truly pan-India studio.

The industry is going through rapid evolution and several changes can be expected at a structural level in the years to come. It is an exciting time for the media & entertainment ecosystem, and the increasing investment and competition will only lead to higher opportunities for growth. Amidst this scenario, our company remains well-positioned to capitalize on any shifts and the resultant opportunities with a well-diversified portfolio. What we have built at ZEE is a truly unique and valuable asset, that harbours the capabilities to continue delivering returns to its shareholders amidst such changes. As the industry contends with advertisement revenue and subscription revenue recovery, our performance in another key business segment, helped offset the slow growth rate, displaying the fundamental strength of our business. The quarter gone by has certainly accrued higher value than the previous quarter, and we remain cautiously optimistic on the outlook going forward.

We are seeing a gradual recovery in the advertising sentiment, which led to gains during the quarter. But the recovery mode has just begun, and we are yet to witness rural sentiment improve entirely, thereby keeping us cautious on the overall growth. The festive season is expected to spur growth in the third quarter, and we remain optimistic of delivering higher growth albeit with some caution towards the overall macro-economic environment.

On the subscription side as well, with NTO 3.0 implementation having stabilized, we find ourselves on a better footing, and remain hopeful of sustaining positive growth levels in the coming few quarters. We continue to make significant efforts along with the industry, to drive growth of the pay TV ecosystem in India. We are enthused by the results of those efforts, wherein TV viewership continues to grow. The share of pay TV is at its peak of the past sevenquarters, having increased by nearly 300 basis points (bps) in the last one year.

Coming to our digital platform, all the usage metrics for ZEE5 continue to remain healthy on the back of key originals and direct to digital films driving higher subscriber acquisition and retention. Our revenues are a suitable reflection of the platform's growth quarter on quarter and are in line with external and industry reporting standards. We also witnessed a healthy reduction in ZEE5's EBITDA losses, in-line with our indication of the platform already being close to its peak investment levels.

Overall, the second quarter has displayed positive signs of growth compared to the start of this fiscal, and we remain hopeful of this sentiment further improving as we move forward. On that note, I would like to hand over the session to Rohit to take you through the financial and operating metrics of the Company's performance in detail. I would also like to take this opportunity to wish all of you and your loved ones a very happy and a prosperous Diwali. I look forward to interacting with you during the Q&A session later. Over to you Rohit.

Rohit Gupta: Thank you, Punit. Good evening, everyone and great to connect with all of you. We have had a good all-round operating and financial performance in Q2, and I will briefly touch upon some of the key highlights.

As Punit alluded, the industry landscape is transforming, and we are very excited about longer-term growth prospects for our broad content portfolio and diversified offerings. We are continuing to shape our business with focused investments for the future, while navigating some of the near-term headwinds around soft Ad environment.

During the quarter, while we saw some gradual pickup in Ad spending led by FMCG, pace of recovery is still slow. Asia Cup cricket in September also took some share of FMCG Ad money. Our Ad revenues were 3.3% lower YoY and grew at a modest pace of 4.1% QoQ, reflecting nascent pace of Ad spend recovery. Looking forward, we are optimistic of gradual recovery to continue in Q3 on back of festive season, however, cricket world cup will take some share away.

With NTO 3.0 having paved way for TV subscription revenue growth and step up in ZEE5 subscription, our subscription revenues were up 8.0% YoY. On a QoQ basis, there is a slight moderation of 2.2% decline, given we had a lumpy base in Q1 for TV subscription revenue, which was the first full quarter post NTO 3.0 implementation. TV industry landscape remains healthy and post NTO implementation, we remain optimistic of modest growth in our TV subscription revenues.

Q2 was another strong quarter for our TV viewership share performance, wherein we have gained 90 bps share QoQ to take our network share to 17.9%. It's heartening to note that this gain is fairly broad-based across several key markets including Zee TV, Marathi cluster, Hindi movie channels, and southern channels like Zee Kannada and Keralam. We remain market leaders in Hindi and Marathi movies, Kannada, Odia, Bangla, and Punjabi. From a competitive landscape perspective, our 90-bps share gain is highest among all major TV networks in India. Overall, we are extremely pleased with team's concentrated efforts to win back share and hope to keep the momentum in coming quarters. Specific to Q3, please keep in mind that GEC share in December quarter will be adversely impacted by Cricket world cup.

On digital side, ZEE5 had a strong quarter with 59% YoY and 37% QoQ digital revenue growth. We have seen growth in ZEE5 subscription, and a digital syndication deal has further aided the revenue growth. Our original content continues to resonate well with viewers, and we released 22 shows and movies, including 4 originals during the quarter. Driven by operating leverage and prudent cost management, ZEE5 EBITDA loss has narrowed by Rs 882 mn QoQ.

Coming to the movie business, Q2FY24 was a blockbuster quarter for Zee Studios which created new records in terms of footfalls and box office collection. Zee Studios released 6 movies (2 Hindi and 4 regional) during the quarter with Gadar 2, Bro, King of Kotha being some of the headline names. Gadar 2 went on to become the highest ever grossing movie on box office for Zee Studios. As a result of strong performance of theatrical releases and syndication, "Other Sales and Services" revenues are up 201% YoY and 322% QoQ.

On Music business, Zee Music Company (ZMC) is seeing consistent growth in video views and subscribers, highlighting strength of ZMC new-age music catalogue and rich library. ZMC is #2 music channel with over 142 mn subscribers of YouTube and over 45 bn total video views during Q2.

Now moving to costs and Profitability, in Q2FY24, overall operating cost has increased 23.2% YoY and 15.1% QoQ due to higher content costs, movie releases and investment in ZEE5. Given strong revenue growth led operating leverage and effective cost management, EBITDA margins have improved to 13.6%, higher by 580 bps QoQ. PAT from continued operations for the quarter came in at Rs 1,299 mn. Net profit for the quarter and year was impacted by merger expenses related exceptional item which for Q2 stood at Rs 1,198 mn. This quarter merger related expenses also include a one-time provision for stamp duty with respect to proposed merger scheme.

On balance sheet side, content inventory has declined in Q2 driven by movie releases and syndication. Sep'23 Content inventory, advances and deposits are lower by Rs 2.9 bn at Rs 76.7 bn. The cash & treasury investments of the company as of Sep'23 stood at Rs 5,655 mn, which includes Cash balance of Rs 3,649 mn and FDs of Rs 2,006 mn. Also, quickly touching upon the receivables from Dish, outstanding balance is at Rs 691 mn as on September 2023.

Moving through the rest of FY24, we are expecting gradual recovery in consumption sentiment and are optimistic based on FMCG commentary with respect to Ad spending. While Q3 will see some festive pickup, we are still cautious and would monitor how the pace of recovery settles post Diwali. As Q2 has shown, we have a higher degree of operating leverage in our business and are confident that as revenue pick up, we will also have more tailwinds on profitability as the year progresses. Back to you Mahesh

Mahesh Singh: Thanks, Rohit. And we now open the call for questions-and-answer session.

Moderator: The first question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: My first question is on ZEE5. So, the sharp reduction in losses quarter-on-quarter, so what is new here? Is it because of the impending merger, you would like to have a more nuanced look at the merged entity difference overall strategy? Or is it because the competitive intensity from the global OTT is reducing? Or is it because the overall OTT revenue potential itself seems to be slowing down much earlier than initial expectation?

Punit Goenka: Abneesh, this position is not as grim as the 3 options that you are giving. We are still operating this entity as if we are a standalone Zee entity. And the impending merger has not had any impact on what may have transpired. But the increase in revenue, and as we have said that our investments have peaked in ZEE5 already, as I said in my opening remarks as well. Our investments levels are not going up at that level. And therefore, this trend will continue, and you will see only better operating metrics coming at ZEE5.

Abneesh Roy: So, one follow-up on that was, and that's also on your movie production business. So Q2, we saw the entire movie industry do really well, multiplex industry had all time high their numbers. And you yourselves did well across 3 different languages and very good numbers. So are there any learnings from what you did, which can be seen as a playbook for your coming movies because the same movie industry in October has again seen very tough times.

So, your comment on that. And second one was what we have picked up OTTs now are bidding for movies once they are actually released. So, then they'll get a sense of how the movie is and the bidding rights also are much more sensible. So how does that impact you both as a buyer of content and as a seller of content.

Punit Goenka: I think first and foremost, Abneesh, as I've always maintained, content is king. So, if you make the right content, then this connects with the hearts of people, it will do well. And then, of course, marketing is the second key mantra behind films. So, I think we've had key learnings from our last 3, 4 films that we have released in terms of the marketing strategy, et cetera, and how that has paid off.

So, it's not rocket science, but it's something we have tried differently, et cetera, and that has paid off for us. So, we will continue to work on that going forward, it's not the final learning, but we'll continue to work on that. I think you're absolutely right. The OTT market, et cetera, is also settling down now. The pricing wars will end very soon. The water level will find its best place for the right content with a right price.

Abneesh Roy: Okay. Last question on the news article which came today and similar article a few days ago also. So, I understand you got the reprieve from SAT. So, if you could comment on, is there any disconnect between you and Sony at the further recognition level. Is there change which can happen to the merger because of this? And what are the prices that you're looking at – almost all the calls have come. Do you see the listing and the list of the merger?

Punit Goenka: I'll just take the first part, Abneesh and others can take the rest of it. We don't, as you know, comment on speculation that happens in press. So, I would not like to comment on that. We are in active engagement with Sony on various parts for the entire scheme to be finally implemented after getting all the approvals that we've got. On the listing part, Mahesh, Rohit, you guys can take it.

Vikas Somani: So, on your other questions, Abneesh. Right now, we are focusing on implementing the scheme as approved by the NCLT, by the shareholders and other regulatory bodies. So, we are focusing on that and trying to get that at the earliest. We're not putting any condition precedence and closing conditions, which will have to complete on which we are working right now. So, in terms of the timelines, probably we may take a few next weeks in order to complete this.

Moderator: The next question is from the line of Vivekanand Subbaraman from Ambit Private Limited.

Vivekanand S.: Punit, I wanted your comments on the competitive landscape that is currently prevalent. Reliance is infusing more capital, but then Disney globally has been on the back foot as far as the linear TV and perhaps also their ability to tolerate longer gestation in India is concerned, how should one think about the TV industry given the competitive dynamics?

Punit Goenka: So, Vivekanand, as I said in my opening remarks, within the last 7 quarters, we have seen the TV viewership peaking by almost 300 basis points. So, I cannot comment on the global scenario for television, but I can certainly comment on the Indian scenario for television. It's going to be continuing to be a very healthy environment for television in this country, at least for the foreseeable future.

So, from that perspective, I think your company and our company is well poised to take advantage of that and therefore, continue to deliver on what we have promised all the time. As far as the pressures of Disney what they are facing, I can only speculate based on what I hear in the press just like you. So, I'm sure those press articles are not incorrect, but that will be all speculation.

And certainly, we have seen Reliance investing a lot of capital behind this business. But I have maintained that to win in the media landscape, capital is not the only thing. We need a lot of creativity. We need a lot of talent that is required to make that happen. So, we will continue to be focused on delivering and working towards delivering our market share and therefore, our business from that point of time.

Vivekanand S.: Okay. Second question is on the OTT business. Currently, it contributes around 10% of your revenue. If one were to think about this business maybe 5 years sense, what do you expect the revenue contribution of OTT to the overall business from the point of view of, let's say, the merged entity or Zee alone?

Punit Goenka: So it's difficult to speculate Vivekanand but I would say what I would like and not what I think it will happen but what I would like and I'd be happy with is that the OTT business would contribute about 30% of the top line of this company, that will be something that will be satisfactory in my view, and that will be a successful business from my perspective at that point of time.

Vivekanand S.: Okay. Fair enough. And where do you think the growth comes from incrementally? Is it more from advertising or just the subscription part scaling up the way you've done it in the last couple of years?

Punit Goenka: It's a combination of both, Vivekanand, so it's not just one thing. The larger part of it will come from subscription, but there will be a significant part coming from advertising as well.

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

Kunal Vora: Yes. First, I wanted to understand the pay TV subscription mix. So how many subscribers will you now have for cable, DTH and FTTH. And if you also can provide some insights on how are the ARPUs in other three channels.

Mahesh Singh: We haven't given that sort of granularity or split on our subscription side of things, Kunal, but suffice it to say that a large part of this would be DTH and cable. And in number of subscribers, they would be reasonably close to each other.

Kunal Vora: Cable, DTH and FTTH will be similar or cable, DTH will be similar?

Mahesh Singh: Cable, DTH.

Kunal Vora: And how are these number standing, are they, let's say cable and DTH, are they declining year-on-year, or they are holding up.

Mahesh Singh: If you look at recent, on the DTH side of things, numbers are largely holding up. i.e., if you look at last 4 to 5 months data post NTO sort of thing DTH, et cetera numbers have largely held up.

Kunal Vora: Okay. That's it, fine. I will take more on that offline. But next one is what will be the contribution of movies to profitability in this quarter? And, if you can talk about the margin outlook for the second half.

Mahesh Singh: So let me take the movie and then hand it over to Rohit for margin outlook. So, if you look at the way we report other sales and services has largely performance from what we do on movies on the theatrical side and the broader syndication and so on. So that line items largely captures it but it's not just movies from the theatrical side of it, there will also be syndication.

And if I see where you're getting the question too, if this quarter's performance is not entirely movies, so even if you would have had a relatively lean movie performance, the underlying operating performance with the linear and digital would have still improved. Movies have, of course, added and given it a little bit more boost to it. But even without movies, the underlying performance has improved on linear and digital side.

Rohit Gupta: Yes. And Kunal, to your question on the margin, we are refraining from giving any guidance on that. But like I already mentioned in my opening remarks, we have a very good operating leverage. And as the ad recovery starts coming in, I think the margin improvement is given. So, there are 3 factors. One is the movies have done well in quarter 2, in H2 as well, there are movies which will come out, which will help. Secondly, ad recovery and subscription, as you see 8% growth has covered in H1 already. So that will continue as well.

Kunal Vora: Sure. This is on margin, what I wanted to understand was the 13.6% which you reported, what would that number have been if the recent movie performance has not been decent.

Mahesh Singh: We haven't given the split, but let me just point you to a number you can validate, right? Leave the movies aside for a minute. Just go and look at ZEE5, which is where we have given EBITDA. You see quarter-on-quarter roughly INR88 crores, swing has just come from quarterly performance there. We wouldn't be able to break it down by content in terms of movie, linear, digital, but even if you take movies out, underlying performance like-to-like would have improved.

Kunal Vora: Okay. Understood. And last couple of small questions. Receivables have increased from INR16 billion to INR22 billion during the last 6 months, so what's driving that?

Rohit Gupta: So, there are 3 things. One is that the movies, all the revenue that is accrued from the movies in September, actually a lot of it has got liquidated in quarter 3 in October, specifically and these were are large collections, which came-in, in the month end. Similarly, subscription revenues, we've seen an increase, and there has been a built up at the quarter end, which got a released in quarter 3 and for expense. So, there has been a little seasonal aspect to it. Most of it is getting released in the quarter 3.

Kunal Vora: Okay. Basically, a timing issue. And on ad revenue, FMCG companies have spent like much larger amounts this quarter compared to last year, so year-on-year sizable increase in expense by then, but we haven't seen that kind of increments to you. So, in your case, is FMCG has done well or even FMCG has not done very well.

Mahesh Singh: So, Kunal, I think a couple of things has happened. One, FMCG has done well. So, the only thing which you're talking about relatively is the pace of improvement. Keep in mind that when you look at September, October, November time, it's also a fairly busy cricket season, right? And given at this point in time, the hot money funded start-ups have been not that active and so on, the pricing on the sports property has also been a little bit more lucrative.

So, there's a little bit more money compared to what you typically see in a busy sports season, which has gone from FMCG to sports. So underlying, yes, we see the improvement, but we would want to monitor and see how things settle down post Diwali because then the festive will be out of the way and a busy sport calendar will be out of the way. Underlying, yes, there is improvement. But keep in mind that there's some bit which has gone to cricket as well.

Moderator: The next question is from the line of Karan Taurani from Elara Capital.

Karan Taurani: I have two, three questions. The first one was on the advertising front. So, you mentioned that second half, you will see some demand because of festive but you also mentioned the sports part, right? Which is correct, as in, lot of these sports properties will attract a lot of ad spend. so, what is the kind of growth that we can see maybe in the next quarter or maybe in the second half, not for the guidance, but could we expect high single digit, double digit, or low single digits? Any indication or colour there?

Punit Goenka: I can only tell you this much, Karan that the industry will see a high single-digit growth.

Karan Taurani: Right. That's helpful. Secondly, in terms of subscription revenue, of course, this year is going to be good because of the ARPU and the price hike after NTO 3.0, but what we are seeing is that the number of pay TV households specifically on the cable and the MSO side is declining.

And let's assume that if we take a 3% to 4% price hike going ahead structurally and then the number of households is going by 13% is fine, then the growth rate is flattish. Any indication there in terms of where subscription revenue is heading for Indian TV in terms of growth?

Punit Goenka: Here also Karan, we have to look at the fact that even if the cable TV households are shifting, they are shifting to either connected TVs or to DTH. And therefore, we are present on those platforms as well. So, it's not like we are losing out on those revenues. We are pretty much capturing those also in our revenue line. And I do not expect that the subscription revenue on the linear side will slow down any time soon. And Rohit stated that we have already seen an 8% growth in H1, and we expect that to continue.

The next round of revision to the NTO pricing will happen in February, March of the coming year. And we will be working on the back as to how much price increase, et cetera we'll be able to take and work towards that so that we can continue to deliver, if not good growth, at least modest growth for the going future.

Karan Taurani: Right. And lastly, on ZEE5, I mean, what led to this reduction in the losses? Is it revenue numbers scaling up, to a certain extent, I do believe the revenue numbers have kind of surged or is it the cost control measures, is it some kind of industry doing the right thing in terms of content cost coming down? What led to this entire change in terms of losses coming down.

Punit Goenka: It is a combination of all that you have said. So, it's not just one thing. It's not so much of cost control, but prudent cost spending.

Karan Taurani: Right. And anything on the positive buy side that maybe you all have now found a quarter indication in terms of what content work, what doesn't work, experimentation probably has come off. Just any colour on that?

Punit Goenka: Difficult for us to comment here right now on that. There is a lot of content we put out there. You will see from our presentation, almost 22 pieces of content were put out in this quarter, some work, some don't work. And in the content business, not just on ZEE5, but even on television. It's a constant trial and error that we work with. And we have maintained always that as long as you're getting 40% any time, you're okay. If you get better than that, you're doing wonderfully well. If anything is below the 40% mark, then we could be having some pain.

Moderator: The next question is from the line of Abhisek Banerjee from ICICI Securities.

Abhisek Banerjee: My first question is on the ZEE5, ad monetization, if we think even from the post-merger perspective, do you think ad monetization can be a much bigger lever to drive profitability in this business.

Punit Goenka: So, I think we should leave the merged entity aside right now and talk only about our position as we exist today. There is potential to monetize advertising more, but it's a function of traffic and then also the right amount of traffic that you can generate. So, there is potential to make a lot more monetization on the advertising side. But yes, so we will be working on that to generate the traffic that we need to, to monetize that better. But as I've said in the past, the subscription line is far more lucrative and far more profitable for us than the advertising line in this business.

Abhisek Banerjee: Understood. And if I am talking about ad spends from FMCG companies, obviously, there has been a very heavy cricket season. But what is your outlook on the second half of this quarter?

Mahesh Singh: I think when you take it slightly medium term, let's say, 3, 4, 5 months out, we feel quite optimistic about the potential on which ad spends can structurally recover. I think at this point in time, there are very early green shoots. At least in our channel checks, in our conversations with clients, there is a lot more optimism about volumes and generally the rural demand recovers when you really take it to quarter.

So, to that extent, I think as you really look out CY'24, there is optimism. The only debate here is the pace of the recovery. But clearly, given how much the spending has historically been cut out of ads and as volumes come in and everyone acknowledging and recognizing that A&P has to be a driver to drive volume and demand augers well, when you really look at, let's say, CY'24 point of view.

Abhisek Banerjee: Understood. But in your conversations with these companies, do they look at linear TV advertising as a driver of only rural demand? Or do they think that it can still drive high-quality urban demand?

Mahesh Singh: It's both actually. When you even look at TV, there are a fair bit of impact properties. The demographics is fairly broad based. So, it's not just a rural play. When we really look at any brand building effort, any national outreach kind of plan, it gets figured and factored in demographics and reach and the kind of shows getting picked and time slot getting picked and all. So, it's quite broad-based. It's not an either-or situation.

Abhisek Banerjee: Understood. And just one final question. So, in terms of longer time ad cycle, would you have any observation on how advertising has typically been in pre-election years?

Punit Goenka: Advertising pre-election years, it certainly has spiked, and it was brought up significantly from the political advertising point of view. But our company does not get impacted by that, either positively or negatively because a large part of that or significant part of that goes towards the news network and does not come to the entertainment channel.

Moderator: We have our next question from the line of Arun Prasath from Avendus Spark.

Arun Prasath: Thank you for the opportunity. My first question is on the cost in ZEE5. If you look at the run rate, today we are at around INR2,000 crore annual run rate in terms of cost. Obviously, last year it was around INR1,500 and before that were around INR1,000 crore. So, this large part of this incremental run rate, will you attribute it to the unit costs going up or the customer acquisition costs or is it like more towards the volume of the content produced?

Punit Goenka: A significant part of this would be towards the technology costs which you have to incur on a variable basis. Things like CDN, hosting and all those things are variable costs. And as you get more consumption, as you get more user base, this cost continues to go up. The only other part that Rohit can talk about a little bit in detail is also some of the catch-up amortization costs that's coming in. Because we are still running the amortization cycle. And it is not like linear business where it's pretty much running in line with our businesses because it's still a nascent growing business?

Rohit Gupta: Arun, as we have mentioned, we have been making investments in the three areas, primarily in ZEE5. The first has been the platform and the technology, the second has been content and then marketing. There were some initial investments we had to make which were always supposed to be coming down. So, from that standpoint, those quick investments have been made. Content investments will go on and like we said, we are producing all kinds of content will go on and you know 22 pieces of content which got transmitted this quarter. So, it depends on that. And then of course, marketing spends, we have been prudent, and we'll continue to be prudent in that.

Arun Prasath: So, if I had to put it in two buckets, it is a variable cost and fixed cost. Variable cost typically is what percentage of your revenue, ZEE5 revenue?

Mahesh Pratap Singh: Arun, we haven't given that in terms of fixed and variable cost right now. It is a sensitive, given the competitive landscape we are in, that's basically the heart of the cost structure in a way.

Let me put it this way. I think the way when you think of this modeling and going forward, think of it this way, that business was in fairly early stages from coming out of COVID, FY'21, FY'22 and FY'23. A large part of heavy lifting in terms of building the cost zero to one is done with. From here on, the increase will largely be usage linked. We don't have to really go from zero to a few hundred people in tech centers. We don't have to go and start from zero to start building some of our initial content catalogs and all that. So, a large part of heavy lifting from a fixed cost standpoint is behind us. From now on, cost increases will be a function of how the usage and consumption will be. To that extent, there is going to be a lot more correlation of revenues to cost as we go forward.

Arun Prasath: Okay. Talking about the revenue itself in ZEE5, our understanding is this is still largely a subscription-based platform. And Subscription revenue is usually very sticky in nature, but still we are seeing quarterly fluctuations, even on a sequential basis, which shouldn't ideally be there if there is largely driven by sticky subscriptions. So how should we look at this volatility on this revenue path?

Mahesh Pratap Singh: I think B2C, what you said is largely true, Arun, in terms of recurring nature and all that. There'll always be a little bit of churn, but you'll always acquire more. So, I think what you said is true in B2C, but keep in mind that B2B are lumpy. Sometimes when you sort of complete a term on a B2B deal, you may see it fall. Sometimes when you renew a new B2B, you see an increase and so on. So that's one part which causes volatility. And then there could potentially be other service line items which generates revenue. If you had syndication come in a quarter of a digital property and so on, that's where other lumpiness would come from.

Arun Prasath: Ideally as a business, you would prefer more B2C revenue, right?

Mahesh Pratap Singh: I mean in the early stage you need both. You need B2B to give you certain scale and sampling, but you need B2C structurally to drive lot more user engagement and lifetime sort of data insight. Knowing your customer, what you could do with that data eventually on the advertising side and other things so, and we have, I mean, we have spoken about this in the past without giving split. we have a slightly higher skew to B2C compared to where the industry is. But that's what I believe it's it.

Arun Prasath: Okay, my second question is on the linear TV. Again, broadly taking your financials and excluding the ZEE5, we get the sense that the margin is in the declining trend, even in the linear TV, there is except ZEE5 business. Is it more related to the mix change in the revenue, or it is again, the cost of content is increasing? How should we look at it?

Mahesh Pratap Singh: So, the two points on that one, Arun. One, if you look at wherever viewership share is trending, we have come to 17.9% and we're coming on the journey, so yes, we're going through a phase where there is focus, marketing, investment, even on the TV side of things, to revive viewership in specific pockets. So that is one, again not structural, so I wouldn't really make a broader call out on the underlying margins of the business. It's just a conscious choice we're making, and the results are showing in terms of how viewership share is coming. Second, typically when you are in Q2 and heading into a festive season, you will invest behind some of those properties in terms of viewership and all of it to take advantage of stronger festive season coming in. So those are the factors which have played out, and nothing broader to extrapolate beyond that.

Moderator: Thank you so much. The next question is from the line of Aditya Chandrasekar from UBS. Please go ahead.

Aditya Chandrasekar: Hi, thanks for taking my question. A couple of questions from my side. The first one following up with what Abhishek was asking. So, we are seeing FMCG companies, they have kind of increased their ad spends over the last, say, a year or so, but not a lot of that has translated to our ad revenues. One reason is, of course sports because as some of these sporting events, because they are pricier, and are forced to allocate some of it to sports. But are we seeing any kind of structural trends where they are allocating more of their ad spends to digital and so it's not kind of flowing through to our linear TV advertising. That is one question.

The second question is that on a sequential basis, we have seen our TV subscription revenues come down. I think you mentioned there was some kind of lumpiness in Q1. I just wanted to clarify because I missed that. Thank you.

Punit Goenka: Aditya, I'll take the first one and then I'll give Mahesh for the second one. As I've many times said that linear television is the best suited medium, for the reach that you can achieve through advertising. No amount of digital advertising can still achieve the kind of reach television can achieve. Therefore, for brand building exercise, television still remains to be the most focused and most effective from both reach and pricing point of view medium. And therefore, we are not seeing that shift happening. Yes, when advertisers have limited budgets and they are looking at only transaction-based gains for the short term or for the medium term, they would look at digital because that gives them a far more focused reach towards the clients or the viewers that they want to reach. But I don't think we are seeing any structural change happening so far. It's still early days. As I said earlier in my opening remarks and also answering somebody else, we are seeing gains in TV viewership. As we speak, last quarter we have seen a 300-basis point gain in the absolute viewership of televisions. So therefore, there is no structural change that we can talk about. Mahesh, you can take the second one.

Mahesh Pratap Singh: Sure. Second question about subscription lumpiness. Yes, you got that right. What we had pointed out was that Q1 was essentially the first full quarter the NTO got implemented, it implemented from Feb 1st. So, to that extent we had some bit of base effect there in lumpiness and when you compare Q1 to Q2, you are seeing some sequential sort of moderation and that is where we are pointing people to look at YoY sort of growth rate.

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

Jinesh Joshi: Thanks for the opportunity. I have a small bookkeeping question. If I look at our interest cost, it appears to be a tad high when I compare it with the historical run rate and also the figure for 1Q and 2Q appears to be quite similar in nature. So is there an element of amortization over here.

Rohit Gupta: So Jinesh, the interest cost that we have is very similar to what we had in quarter one as well. And as we have disclosed, we are paying a certain amount of interest on the Star ICC contract, wherein we have association with Star and that forms part of it. Therefore, you see year-on-year growth but, on a QoQ is pretty flat.

Jinesh Joshi: So INR23 crore is the run rate which one should be building in, right?

Rohit Gupta: There is about INR18 crores, which are finance charges and other things, which are approximately figure. And then the other part is that there is a lease accounting aspect based on which some long-term leases do get classified, and there is an interest element which also forms part of this.

Jinesh Joshi: Got that. My second question pertains to your remark on one of the questions which was asked earlier pertaining to buildup in receivables. And I think we mentioned that the buildup is predominantly because of the movie business and liquidation should happen soon. But I just want to get this right, Gadar was released on 15th August, and we still had 45 days for collection. So just wanted to understand, how does this receivable accounting basically work with the multiplex owner?

Punit Goenka: So typically, Jinesh, the receivable starts within two to three weeks of the movie release. But you have to keep in mind that Gadar also ran for 56 days, which means it was not just a 15th August one day release, and therefore the collections accounted for, accumulated over the 45-day period, including even running into October. From that point of view, it's not just simple mathematics of 15th August. Actually, the movie was released on 11th August. So, it's not really just a simple listing because the revenue build-up is on a daily basis and therefore the billing also happens on that basis.

Jinesh Joshi: Sure, sir. I just wanted one small clarification. I think with respect to ZEE5 revenues, it was mentioned in the opening remark that there was some digital syndication deal as well, if I heard it right. If you can just clarify, what does this pertain to?

Mahesh Pratap Singh: Yes, so that pertains to a content piece, which we have syndicated out, Jinesh. So, what happens is when you do something like this, you basically have corresponding cost and revenue coming in the P&L.

Punit Goenka: I will just elaborate that, Jinesh. So, we buy a lot of content, which is even bundled with our television content, right. And therefore, at times we believe closer to realizing that this content may not be suitable for our platform in the best form. And that's when we decide to go and syndicated it out. And our teams felt that we would get a far better return on that piece of content if we were to syndicate it out rather than keep it for our own platform. And that is what you see there.

Moderator: Thank you. As that is the last question for the day from the participants, I now hand the Mr. Mahesh Pratap Singh for closing comments. Over to you, sir.

Mahesh Singh: Thanks Enzo. Thank you, everyone. Thanks for joining us today and wish you and your family a very happy and prosperous Diwali. Do feel free to reach out to us if there are any follow-up questions as we do a deeper study of numbers. We will be available and look forward to speaking to you. Thank you so much and have a great festive season.

Moderator: Thank you so much. On behalf of Zee Entertainment Enterprises Limited, that concludes this conference. Thank you for joining us. And you may now disconnect the lines. Thank you, everybody.