"Entertainment Network (India) Limited Q1 FY2020 Earnings Conference Call"

August 07, 2019

MANAGEMENT: **MR. PRASHANT PANDAY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - ENTERTAINMENT NETWORK (INDIA) LIMITED**
MR. N. SUBRAMANIAN – EXECUTIVE DIRECTOR & GROUP CHIEF FINANCIAL OFFICER - ENTERTAINMENT NETWORK (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Entertainment Network (India) Limited Q1FY20 Earnings Conference Call. We have with us today on the call, Mr. Prashant Panday, MD & CEO and Mr. N. Subramanian, ED and Group CFO. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Panday. Thank you and over to you Sir!

Prashant Panday: Thank you Inba and welcome to the conference call, ladies and gentlemen. I will give you some opening statements on the company's performance for the quarter and then open up the floor for questions.

I am going to present to you the data in the basic strategic form that the company is transforming into. It is the piece with what we have been speaking in the past. Overall operating revenues are up 10% at Rs.129.7 Crore for Q1. If I were to break it up into its two products, which is basically radio and the solutions business, the radio business has grown by 1.4%, while the solutions business has grown by 42.4%.

Growth of 1.4% certainly looks like a low number and one reason obviously is the very strong sluggishness in the market. This is seen in the operating results of print companies, television companies on the entertainment side, and it is the same thing that has been seen on the radio side as well. There is a very important second reason and that is the fact that we were on a very high base of growth last year. The growth that Mirchi recorded last year in Q1 was 21.6%. I think a meaningful look at the growth number for the radio business should be done over two years because different radio broadcasters had different bases last year.

Firstly, over two years, which is Q1 FY20 over Q1 FY18, in our estimation, the overall radio business in the country has grown by 9.2% i.e. 9.2% is the industry growth. I will now tell you the growth that has been announced by various players over a two-year.

First is Radio Mirchi. Over a two-year, the total radio revenues growth is 23.3%. MY FM, which is the Dainik Bhaskar Group, has announced results and their radio revenue growth is 21.4%. HT Media has announced a 21.6% increase over two years. Radio One has degrown by 22.0% and Radio City has degrown by 0.8%.

Let me explain the solutions business. As mentioned earlier, the solutions business grew by 42.4% in Q1. Last year, it was already on a high base and had grown at 14.0%. This is the thing that is very heartening for Mirchi that the solutions business, which we have been cultivating for the last decade and very emphatically for the last five years, has now achieved a certain momentum of its own. And this momentum is expected to continue into future. To repeat, in Q1 last year, the solutions business grew by 14%, and in the Q1 this year, it has further grown by 42.4%. It is a very strong performance. This is the first cut I was offering on the 10% operating revenue growth: one was the radio; and two, by solutions.

The 35 core radio stations or the heritage stations have reported a growth of 6.6%. This is growth reported for radio plus solutions business. Batch 1 stations have reported a growth of 5.7% and batch 2 stations, which are new, do not have a base of last year. Instead of reporting a percentage number, I will just mention that they have done an additional Rs.4.05 Crore. These put together add up to the 10% growth on an operating level.

In terms of ER, the broad story is that we have managed to hold up our price. It is plus 0.7% on our heritage stations and on our batch 1 stations, on a like-for-like basis, it is about plus 5%. In the industry, we believe the pricing has come under serious pressure and we know that many broadcasters have lost pricing by anywhere between 5% and 20% during Q1 compared to last year but being a strong brand, Mirchi has been able to hold its pricing.

In terms of capacity utilizations, we lost capacity utilizations in the top 8 markets because the biggest brunt of the economic slowdown has been felt in the top 8 markets. In the other markets, there has been a growth in capacity utilization in batch 1 stations, in batch 2 stations, etc.

In terms of EBITDA, our reported EBITDA is positive. On an underlying basis, our EBITDA has fallen by 13.8% compared to last year. We reported Rs.24.4 Crore this year. The EBITDA has fallen because the core radio has grown by only 1.4%, but the costs in the business have grown by about 5.5%. However, the good news is that the gross margin of the solutions business is actually pretty strong at 39%. At a company level, radio EBITDA is about 19% and the non-radio EBITDA, which is solutions and other operating incomes put together, is 18.5%. The two halves have more or less balanced in terms of EBITDA margins overall and we expect that this will improve going forward. First quarter, it tends to be relatively smaller. Overall EBITDA margin last year was 22.5%.

In terms of categories which have performed well, for the radio business, surprisingly, the auto category has done very well. The auto sector has been under a lot of stress in the country and dealerships are interested in liquidating stocks. There is no better medium than radio to do consumer promotions and liquidation exercises especially at a city level and we expect that the buoyancy in the auto sector for the radio business will continue in the quarters to come this financial year.

Interestingly, the radio industry did very well in organized retail as well, again, this is because of a lot of consumer offers that were being offered. You walk into any store today, you find offers everywhere. Many of these offers get advertised and which is why the radio industry has done well but overall, most other categories have done poorly. IT, which is basically the payment apps, has done well on television but they have been bad on radio and print everywhere. Education has generally been bad. Government and political overall for the radio industry has been pretty much flat, even though political was strong in April, May but government advertising got cut because of the code of conduct. Overall, government and political is a no net gain business for radio. Similarly, media and entertainment has been slow because not too many shows launch happened and also the new tariff order has impacted advertising spends on core programming of television channels.

But the good news - on the radio side is the latest IRS, which came out 1.5 months back, has shown that in the last about one year or so, weekly radio listenership is up 8.3%, which is remarkable. A lot of it is to do with the expansion of the radio network, but that is alright because overall, we have been big players in the expansion as well. So, we have benefited as well.

Radio Mirchi’s, weekly listenership number was 32.1 million, which is an expansion of 14%. Our participation and expansion have been extensive. Therefore, our listenership has grown by 14% in about 15 months' time compared to the previous IRS. As I mentioned, overall industry has grown by 8.3%, which means Mirchi's listenership growth is almost 75% higher than the industry's growth.

If I take the top 8 markets where there has not been much expansion in number of stations, Radio Mirchi's listenership has increased by 7% in just a year and few months and this is really strong radio growth. I think radio remains a very strong medium in the country and we are bullish that it will continue to remain so. One of the reasons why radio has grown so strongly is that radio consumption in cars has gone up very strongly by 28% in the last one year and three months. When we see traffic jams happening, the number of roads being constructed in the cities being so very less, we feel very happy in one way, because it is a big boost for the radio business.

The exciting part about Mirchi is not just the radio business. The radio business, of course, is strongest in the country, but we have developed a very strong solutions business as well. On the programming side, we are already a very big player on the digital side. While Mirchi listenership is approximately 32 million on a weekly basis, we believe on a monthly basis, it might be 45 million people. On YouTube, we get more than 60 million people on a monthly basis. That is remarkable because YouTube viewership does not overlap very much with FM radio listenership, which means Mirchi footprint is more than 100 million people today.

Digital has helped us double our footprint. We are going out to clients with a whole different outlook now. We tell our clients that we can give you a solution, which includes radio, YouTube, original content, podcast, live events, concerts and activations. There are so many things that we do and all of this we bring to the clients and they like solutions very much and that is the reason that our solutions business has been growing.

Just some more data before I close, on YouTube, we did 725 million views last year. That is a remarkable number. This year, we will cross 1 billion views on YouTube. Our subscribers on our various channels are upwards of 6.5 million subscribers. Now, these are no mean numbers and these numbers are slated to grow in a very big way this year as well. You will realize that we are putting a huge thrust on YouTube because YouTube continues to be the biggest video platform. It is starting to monetize, and it provides us a very good platform for our original content business.

Recently in original content, we sold three shows to MX Player. In that sense, we have become like a film or a content producer, because we are making video content, retaining the IPs and giving limited IPs for limited duration to platforms like MX Player at a profit. This is a very exciting part of our business and I would be happy to talk about it if you have interest in that area.

I would like to end by summarizing that in line with our long-term strategy, we have two businesses, which are growing strongly and independently. One is the radio business and we expect it to grow strongly in the years to come and second is the solutions business, which is entirely a very strong strength of ours. We dominate that in the radio business. We are also dominating it amongst other businesses. Not too many other businesses in print or television do solutions. We are emerging as larger player and the best part about solutions business, of course, is that it unshackles the boundaries of the radio business. The 4%, 5% constraints that radio impose, such constraint does not apply to ENIL any longer.

With that, I would like to open the floor up and take your questions.

Moderator: Thank you very much, Sir. The first question is from the line of Ashish Kumar from Infinity Alternative. Please go ahead.

Ashish Kumar: Thank you Sir, for taking my question. I have a couple of questions. One is on the EBITDA margins for the radio business, they seem to be in the mid-20s even for the mature stations, some of our competitors have reported, at least for the mature stations, EBITDA margins in excess of 35%. Even, we have done that in the past. So, any reason why we are seeing this and what can be the trajectory going forward?

Prashant Panday: Ashish, our reported EBITDA margin for the quarter for the heritage stations, the 35 stations that we migrated, was 32% for the quarter.

Ashish Kumar: Yes, sorry, 32%. But some of the competition has reported in excess of 40%?

N. Subramanian: Yes. But those might be full year numbers because this number is on the back of degrowth in the current quarter. So, you will certainly see an uptick in the margins. There is a growth in the revenue from the top 8 and the migrated 35 stations. I do not think anybody could have had 40% margin in this quarter because all the legacy stations or the migrated stations have witnessed a de-growth for everybody during the quarter.

Ashish Kumar: Okay. Coming back to the second question in terms of the use of cash, we have Rs.150 Crore of cash and clearly, we are moving into a strong free cash flow generation. In the last quarter, we saw that the Board was going to look at utilization of cash in the meeting in this quarter so any thoughts around it because eventually, this is a business, which is required for the free cash flow generation.

N. Subramanian: As we said last time also, there is one large acquisition that is pending, which you all are aware about, so that is still not complete. The money that is kept aside is only for that. Other than this, we do not see any major investment. Our maintenance capex would be in the region of about Rs.10 Crore. We may additionally do Rs.10 Crore to Rs.20 Crore on other investments, including international. I do not see the total crossing Rs.25 Crore in any year. Once this acquisition is complete, I think the Board will relook at the policy and workout the distribution. There are no plans to utilize this cash other than for the stated purposes.

Ashish Kumar: But in terms of that acquisition has been pending for a long time, and you can always as a group, given the sponsorship you have access to short-term liquidity in terms of even if you were to borrow for three, six months is not a problem. So, would not it be more prudent for you to start distributing the cash already?

N. Subramanian: The Government is looking at the proposal. We will hear from them soon but if we do not hear anything in the next three to four months, we will come back on the dividend policy. We still have 6 more months before we announce our annual results. This question of now or whether we do it in January, we will come back to you after we hear from the Government.

Ashish Kumar: Okay. We would appreciate it, because if there is a very stronger use in terms of distribution of cash to the shareholders, given the fact that the business growth in terms of revenues has been muted now for some period of time.

Prashant Panday: Ashish, if I may just interject again, I do not know if you were there when I opened my remarks. But in two years, just to reiterate, Mirchi's radio business has grown 23% and overall operating business has grown 32%. So, I would not call it muted results. The EBITDA margin performance has been less because of the investments we have made in Phase 3 and like Subbu said, the EBITDA margin on mature stations is 32%. It is definitely in line with what our expectations were.

Ashish Kumar: Thank you.

Moderator: Thank you very much. We have the next question from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Good afternoon Sir. My first question is regarding the trend that listenership is increasing in cars. In the music broadcast, they told that car listenership is around 6% of the total listenership. Can you throw more color on that?

Prashant Pandey: No. The listenership in cars has definitely gone up much more. 28 million is the car listenership on a total base of 116 million. So, it is approximately about 25% to 26% listenership amongst cars and as I mentioned, this has grown very rapidly. Let me give you a little more dimension on this. If you look at the bigger cities and especially cities in the north, for instance, if you look at Delhi, Gurgaon or Noida, these are reported separately, the listenership of radio in cars is even more than the listenership of radio on mobile phones. Earlier, mobile phones were the main place for listening to radio. Today, in some of these cities, cars have become the main place to listen to radio. We are very excited of this, because of two things: one is the profile is very rich of these people and two is that they are spending long time listening to radio.

Manoj Dua: Okay. I was confused, that competitor said that total listenership is 6% and you were telling, I think, last concall also, more than 20%. Thank you.

Moderator: Thank you. Our next question is from the line of Nikhil Vaishnav of VD Investments.

Nikhil Vaishnav: Thanks for the opportunity. Sir, my first question is as far as batch 2 stations are setup, so how much revenue and capacity utilization can we expect for next two years from current and can you tell me about the batch 1 stations also for the same?

Prashant Pandey: I think in the first quarter, our batch 1 stations, if you take like-to-like basis, or 15 stations, which have been around out of 17 stations, our capacity utilization for radio alone was 33%, approximately one-third, of our total capacity available. In batch 2 stations, it is about 16% in first quarter.

Nikhil Vaishnav: So how much growth we can see in the next two years in terms of revenue and capacity utilization?

Prashant Pandey: I think in terms of batch 1 stations, assuming that the economy starts taking off in another few months, I would expect that the capacity utilization on batch 1 stations should climb upwards of 75% and I would expect that in batch 2 stations, the capacity utilization should climb upwards of 60% - 65%.

Nikhil Vaishnav: In terms of revenue, Sir?

Prashant Pandey: In terms of revenues, you should assume pretty much a small growth in ER. I would assume anywhere upto 5% increase in ER on a yearly basis. The capacity utilization will go from 33% to may be about 75% in batch 1 stations and about 50% - 60% in batch 2 stations.

Nikhil Vaishnav: The second question is in this quarter, the interest cost has increased to Rs.4 Crore. What is the reason? What is our current debt?

N. Subramanian: No, we do not have any borrowing. You would be aware that a new accounting standard was introduced during the quarter, which requires all leases to be capitalized and the lease liability to be reflected in the books. So, it is the effect of that standard. We do not have any borrowing. Our borrowings are zero.

Nikhil Vaishnav: Thank you.

Moderator: Thank you. Our next question is from the line of Manish Gandhi, an individual investor. Please go ahead.

Manish Gandhi: First question is, Prashant, what is our share in the radio? In 2017-2018, we had lost some market share, and of course, last year we gained and this first quarter also. So, are we back to what we had in 2015 or 2016?

Prashant Pandey: Yes. We are now back to where we were two years back and in the markets in which Radio Mirchi operates, which are about 73 stations in 63 markets, I think our market share is 28.7%. It used to be lesser two years back, but because of new stations coming in, our market share has increased to approximately 29%.

Manish Gandhi: As you mentioned about three shows, so one is Kalyanam part 2 and two others. We are going to stream on MX Player and also our radio station on Gaana. When can we have our digital and even radio on other platforms other than the group company and even some digital, say, Amazon and Netflix? Are we planning or do you have any talks about it?

Prashant Pandey: A good question. In fact, our online radio stations, they are already talking to another platform. We should have launched on another platform about a year or so back, but that platform went into a bit of internal issues and our launch on that platform got delayed. Now the talks have restarted. They are very keen on hosting three online radio stations from Mirchi. We are talking to them about it and that should happen hopefully soon. With respect to the original content, we do not have any preference for in-house platforms necessarily. So, MX Player happened to be the best offer we got, and we took that, but we are talking to other platforms, and there are several platforms who are interested in talking not only within India but for some content internationally as well. Here, it is a question what rights you give to the OTT platform. In the MX Player deal, they had exclusive rights for the India territory for a period of time, but internationally, they do not have exclusive rights. We can look for partners internationally as additional partners. We are in the process of doing that. But like I mentioned, we are also talking to all the other partners, but some of them may not be interested in the format that we do. We typically do short-format episodes and many of these platforms are not interested in short-format episodes. We have a handful of them with whom we are talking.

Manish Gandhi: Yes. Because eventually, when you want to take this business from Rs.10 Crore to Rs.75 Crore, like you mentioned in the annual report, you will require many platforms?

Prashant Pandey: The number that I mentioned, Manish, was on digital revenues. Original content is a part of that digital revenue. The very exciting part in digital, of course, is what we call multimedia solutions, where we offer digital solutions to our clients. So today, when my sales team goes to meet a client, the sales team does not say how much radio I can sell to you. The sales team says, "Tell me your marketing challenge and I will come back to you with a solution," and that solution includes digital, live events on ground, a concert, activation and multiple other things that we have in the solutions portfolio. Thus, digital is getting a big boost even from the whole solutions selling business.

Manish Gandhi: We have done 50 podcasts last year and in annual report, it was mentioned that China is $1 billion in podcasts. So, can you just share your thoughts on podcast? I know it is too early.

Prashant Pandey: Yes. It is a really early stage in India right now because one crucial thing about India is that we are a very video country. Even, music in our country is consumed on video actually. YouTube is the biggest music platform. It is not any of the music OTT platforms. Also, globally, a lot of the podcast listening happens while traveling, either while you are walking on the streets or you are sitting in a train. In India, many of these things especially train journeys and all that have converted to video. Podcast is a nascent business in India. People have hopes on it, and we are there early in the game. But right now, it is not a very big business opportunity.

Manish Gandhi: Congratulations on solutions business.

Prashant Pandey: Thank you, Manish. Thank you very much.

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

Jinesh Joshi: Thanks for the opportunity. First question is on the advertising front. Now with the local advertisers being more sensitive to the slowdown, are you witnessing any delay in ad spends from their side? Also, what is the current national and local mix, if you can share?

Prashant Pandey: On the contrary, we have seen that retail advertising has been stronger because more consumer offers are advertised, and therefore, radio picks up good growth in retail. At this time, 50% - 50% is our mix between national clients and retail clients.

Jinesh Joshi: Secondly, if my understanding is correct, the majority of our solutions business is concentrated in the top 8 to 12 markets. If the slowdown concerns aggravate and radio volumes continue to dwindle, do we kind of plan to penetrate deeper with our non-FCT offerings in Tier 2 and Tier 3 markets and also, if you can help me understand whether these markets have appetite for such kind of offerings?

Prashant Pandey: You are right that the top 8 or top 12 markets are where the solutions business has a much more ready market because the clients are bigger, the agencies are more open-minded, the opportunities to do solutions is a lot more and clearly, our thrust is in the top 12 markets. But remember when you go to the growth markets, the smaller markets, there is a different opportunity which exists, which also is in the solutions business that we do. And that different opportunity is about doing activations in those markets.

Now let me give you an example. In many markets across the country, we organize what is known as the shopping festival. Now a shopping festival basically means that a retailer can enter the shopping festival with a relatively small amount of spend and can also convert that spend into generating revenues out of that shopping festival. So, it is not really a big investment on advertising. It ends up becoming a transaction and the brand building and the footfall increase happen on the back of a shopping festival. This is very popular. Like this, we have several different IPs that we are creating in the activation space in the growth markets. And that is, again, a big growth area for us. It is not the conventional multimedia solutions in the top 12 markets but actually more activations in the growth markets.

Jinesh Joshi: Okay. So, in nutshell, the opportunity also exists in these markets if the need be and we can penetrate deeper into these geographies as well?

Prashant Pandey: That is not only if need be. That is a big strategy of the company. In fact, a big organizational structuring exercise is being undertaken where we are able to devote more senior management focus to our growth markets with the intention of tapping into a lot of opportunities which exist beyond radio. That is something which is a conscious strategic effort of the company.

Jinesh Joshi: Okay. Sir, one last question, what is the annual cost line for the non-FCT business.

N. Subramanian: Jinesh, it was Rs. 24 Crore last year. This year, I presume you are talking about the cost items below DVC. This year, I expect it to be around Rs.32 Crore.

Moderator: Thank you. We will take our next question from the line of Pavneet Singh of Skyline Equity. Please go ahead.

Pavneet Singh: My question is regarding the kind of revenue expectations over the next few quarters seeing the current slowdown. Presuming there is like-to-like almost negligible or zilch growth, what kind of EBITDA margins do we see going forward in the FCT and as well as non-FCT business? And the second question is regarding the government ads. After this spoiler of June and July, do you feel that the government ad has come on track as it was last year? And what kind of base did we have last year like-to-like, which is when you compare something?

Prashant Pandey: On the core radio product, the headwinds that are there will continue. The current situation trend is pretty bad. June was very bad. April and May were very good because of political advertising. July onwards also, we are seeing that the slowdown is continuing. Advertisers are being very conservative in spends right now. And that is understandable because big advertisers have spent a lot on cricket and also slowdown is there.

Generally, the word we are getting from advertisers is that in the second half, the advertising spend should pickup. Everybody is expecting for the business to pickup as well. If that happens, then overall at the end of the year, our EBITDA projections will remain and as Subbu mentioned earlier, the solutions business is becoming more profitable every year and therefore, there will be a build-up of EBITDA happening from the solutions side as well. At this point in time, when we look at our annual goal for EBITDA, we are on track, even though the composition of that EBITDA may come from different businesses.

Pavneet Singh: If I recall correctly, Subbu last time mentioned there will be an EBITDA growth of close to 12% - 15%.

N. Subramanian: We would still maintain the same number. We will certainly be better than that unless the second half turns out to be much worse than what everybody is expecting it to be.

Pavneet Singh: Do you have some premonitions regarding that?

N. Subramanian: No. I am just saying that, because on a quarter-on-quarter, it is always very difficult to forecast, not that we have any worries. Based on the current forecast, we expect certainly those numbers to be met.

Pavneet Singh: When it comes to group solutions altogether, be it FCT or non-FCT, as just Prashant mentioned a while back, the number of queries might have increased, as you see that the budgets are pretty late in like the national advertiser as well as the local ones, they are pretty late in discussing their budgets with you. So as the queries increase, are you seeing more activity by our salespeople on the ground? And second question regarding the government ads.

Prashant Pandey: The number of inquiries for core media has reduced. However, the number of inquiries for solutions has increased. Like I was mentioning, advertisers are not interested in buying secondages or radio or TV or square centimeters on print. That does not serve their purpose. Their objective is not to buy media. Their objective is to get desired traction in the market. They are demanding solutions and there is a huge market for solutions so inquiries for solutions have gone up, inquiries for just plain vanilla advertising, whether it is print or outer form or radio or television, that is under pressure because of the slowdown. Actually, because of the slowdown, the solution business is even more in demand, because everybody wants solutions to increase the throughput of their own sales. Now with respect to government advertising question, the government advertising should have started in June after the government is formed but June and July, the government advertising has been very slow. They have not released budgets yet, but again, I am sure that they will start spending because they have a lot of public programs to announce.

Pavneet Singh: So typically, starting this quarter, what kind of cash generation can we see year-on-year basis for the next two or three or four years maybe?

N. Subramanian: Last year, we had an operating cash flow of more than Rs. 100 Crore, about Rs. 120 Crore if I recall it right. I think we should be at that run rate. First quarter is typically very low because there are some spends that we have to do in the first quarter like employee payments and also the payments that we need to do to the governments, which is all in advance. But this tend to pick up. That is the trend that you would have noticed in all the years. So, to come back to your number, it will be upwards of Rs. 100 Crore.

Pavneet Singh: Thank you.

Moderator: Thank you. Our next question is from the line of Prateek Barsagade from Edelweiss. Please go ahead.

Prateek Barsagade: The first question is on the overall advertising environment. You pointed out that overall ad environment is currently experiencing a slowdown. But in the rest of the year, do you see any trigger, or do you have any plans to counter this kind of a slowdown through price hike or anything like that?

Prashant Pandey: I mentioned earlier that there is general expectation that in season, advertising market will lift. So that hope is there. But in terms of a trigger, I think trigger has started to come. Basically, a lot of the advertising business depends on retail purchase of things like durables, automobile, personal loans, real estate, and all of that was pretty badly dented because of the NBFC liquidity crisis. As things are gradually starting to lift and as lending in that sector is starting to happen, there is optimism that in a few months' time, these businesses will start to lift.

Prateek Barsagade: Second question is regarding the licensing of the original content. You mentioned that you have now partnered with MX Player, but in the future, do you also have plans to tie up with other OTTs? I also want to know about how the monetization, is it a fixed fee kind of a deal or a perk like kind of deal, just wanted some thoughts.

Prashant Pandey: We have, like I mentioned earlier, no preference for any particular OTT player. MX Player happened to make the best deals and that is why we signed up with them. But we are talking to many others and there is, like I mentioned earlier, a fair degree of interest in buying content from us because the reason is that our original content shows have done exceedingly well in terms of performance. We were having a chat with MX Player the other day, and they are so excited with the content that they are spending a whole lot of advertising monies on that content in cities like Pune, Mumbai, Chennai and Ahmedabad because of the languages over there. They are very excited and therefore, we believe that there is a big market for our content.

In terms of licensing, there are many models which exist. The main thing about the original content business is that the IP is ours and there are several rights, which emanate from this IP. For instance, there is India right and then there is global right. Global right can be carved out into different geographies. There is also a concept of period. There are exclusive rights and nonexclusive rights. You can give it for three months or one year or three years. So, there are a lot of possible combinations. Licensing as an option has opened up and it is an exciting period, because as you know, all these OTT players are hungry for content. And while OTT players connect with consumers, we connect with the OTT players so that is a very strong business opportunity. And in addition to that, remember our older model, which is brands coming inside of our content, content integration of brands is also a business, which is growing. Clients are more interested in that. And so, both the revenue streams exist.

Prateek Barsagade: Yes. I understood. And just wanted to know that given the encouraging response, is it possible that maybe sometime in the near future, you will be producing content specifically for OTTs?

Prashant Pandey: Yes, we are producing content for OTTs, like I mentioned to you. The only thing is that we are not exclusively producing for OTT. We have both the revenue models, brand integration as well as selling to OTT.

Prateek Barsagade: Thank you.

Moderator: Thank you. Our next question is from the line of Bhupendra Tiwary of ICICI Securities. Please go ahead.

Bhupendra: First of all, some numbers from Subbu. If you can get the amount for the ROU assets and liability, if you can share with us, the number that will come in the balance sheet as on April if works for us?

N. Subramanian: Yes., there are two sets of assets that we had leases, that is one was office and the other was CTI. Both are capitalized under the newer standard. The number for ROU for ENIL on a stand-alone basis is around Rs.202 Crore. And the lease liability in the standalone balance sheet is about Rs.228 Crore.

Bhupendra: That is great. I presume the revenue breakup of radio and non-radio was around, say, 79:21 is what I did the back calculation and got it. Am I close to that?

N. Subramanian: Yes. It is about 72:28. Radio was 72.

Bhupendra: Got it. Just wanted, Prashant, to talk about digital segment. I remember we were talking about that we have an ambition of growing this pie to up to 10% of the revenue over the next 2-3 years. What is the kind of revenues we are seeing and what is the kind of cost that we intend to build into this kind of a business?

Prashant Pandey: We are seeing very strong growth in the digital segment and let me just explain what we mean by digital, Bhupendra. One is, of course, original content, which I talked about sometime back. Two is online radio. Online radio is also becoming very interesting because now we are putting our FM radio streams also online and soon, we will be taking out the ads and putting it online. So, we can now feed in new ads. And that ecosystem has started to develop, courtesy of players like Hotstar on the video side, more advertisers are comfortable with listening to traditional linear formats, but on the online platform. So that ecosystem is opening up.

Then there are, of course, client radios that we do. But more exciting is digital solutions that we provide to clients which I was mentioning earlier. A lot of advertisers, for instance, who want to target media dark markets, are using us to do mobile phone-based content solutions for, let us say, UP or Bihar, and here we have a solid expertise. We have done this for the last six, seven years. We have worked with clients like AdWords, Asian Paints, insurance companies and now working with GSK. A lot of these clients were interested in the hinterland, are using digital solutions and these works very well, because this involves content, technology, personalities and influencers, and it involves putting it all together as a solution. So that is something we are building on. We expect that the digital business should grow very fast in probably between 50% and 100% every year for the next two or three years, for sure and like I mentioned, over 5 years, we expect this Rs.10 Crore number to grow to Rs.75 Crore or thereabouts.

Bhupendra: Okay. And Rs. 10 Crore is an annual number, right?

Prashant Pandey: Rs. 10 Crore was the FY2019 number.

Bhupendra: Thank you.

Moderator: Thank you. Our next question is from the line of Srinivas Seshadri from Mirabilis. Please go ahead.

Srinivas Seshadri: Thanks for the opportunity. Prashant, just following up on the previous question broadly on the digital side, what kind of money would we have spent last year, how do we kind of budget it over a two, three-year period?

Prashant Pandey: The biggest cost so far on the online business was the music royalty cost that accompanied the online radio streaming. We are working with our OTT partners and that is the issue that we are talking to them about and resolving and that will take most of the cost out of our P&L. Therefore, it will take the digital business into profitability. That is one thing I cannot talk more specifics at this point in time, but maybe when we meet up one-on-one, we can chat about that in detail.

The other cost is the cost of production, which is really not that much because on the digital video piece, the good news is that the cost of production is not very expensive. These are very ordinary equipment and ordinary editing facilities. The cost of production is really in terms of manpower or human capital or creative capital, which fortunately we have an abundance of, and that is fully absorbed by the radio business. We do not have high incremental creative cost on our digital business. So digital business, I expect it to be very profitable in the years to come.

Srinivas Seshadri: The second and final question is on the kind of measurement we get from IRS survey periodically and also the top 4 cities being surveyed separately on the diary basis. So basically, we have not seen too much talks and movement on a larger kind of a survey like what BARC has?

Prashant Pandey: The IRS is going to be the main currency for the radio industry. The simple reason for that is that radio is available in more than 100 cities. There is no dedicated radio research possible in such a wide spectrum across the country. The only research, which happens across the country, is IRS. Therefore, such research is going to be the main research for the radio industry going forward. Also remember, IRS is not only a readership survey, IRS covers all media. Did you know that IRS also gives television penetration data, digital penetration data, radio penetration data and covers thousands of different brands? It is called a 1-point or a single source research, and it is going to be the currency in the future. All the researches, which are done over four cities are so underfunded, they are so poor in their technology that we laugh at them, we do not even consider them to be important. So, there is no talk, because IRS is doing the job very well right now.

Srinivas Seshadri: Okay. Prashant, can you give some context on what is the depth of the survey that IRS has done?

Prashant Pandey: IRS, as you know, is a huge sample side. I think they do 3.2 lakh surveys across the country. It is a rolling sample. They go quarter-by-quarter. They give you results on the last four trailing quarters, so it is a very robust research. There are audit protocols, which have been established. They are conducted by large consultancy firms. There are design consultants who work on it. It is conducted by a neutral body called MRUC. It is just a terrific piece of research.

Srinivas Seshadri: Thanks for the feedback.

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

Yogesh Kirve: Thanks for the opportunity. Prashant, did you in your opening remarks, allude to the EBITDA margins in radio and non-radio business being around 19%, 19.5%?

Prashant Pandey: For this quarter, yes. For the radio business, it was about 19% and the non-radio business, which includes other operating income, was also approximately about 18% - 19%.

Yogesh Kirve: Okay. This is based on the numbers adjusting for the IND AS impact, right?

Prashant Pandey: This is without IND AS. This is the underlying.

N. Subramanian: If you look at including IND AS, the margin would be better. It will be closer to 28%.

Yogesh Kirve: Right. Sir, going ahead, in the radio business, what sort of a cost increase should we look at, I mean, both the established as well as new stations? Is it going to be sort of a 5% - 6% sort of an increase or are investments happening in the radio side as well?

Prashant Pandey: Yogesh, let me attempt answering that question. There are costs, which are directly related to revenues like in our solutions business. Those will follow the solutions revenues, but with improving margins going forward. Then there are the overheads, which would go at a slow pace, maybe 4% - 5% per annum and then there are costs associated with the expanded radio business, batch 1 and batch 2. Batch 1 is in steady-state mode and batch 2 there is an annualization impact. But once that happens, the next year, it should be again back to normal 5% - 6% growth.

Yogesh Kirve: Right. Finally, just a book-keeping on the IND AS impact, so that should be going ahead, it should be flat, right?

N. Subramanian: Yes. There are three things there. One is the rental expenditure. That will be more or less flat, except when there is an addition to a lease or a termination of lease. Interest costs should come down because it is a reducing balance. Third is depreciation, should be flat.

Prashant Pandey: After four quarters, the base effect will kick in.

Yogesh Kirve: When we talked about the EBITDA growth of the 12% - 15% guidance, so we are referring to on an underlying basis, right?

N. Subramanian: Yes. Underlying.

Yogesh Kirve: That is all from me. All the best.

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

Rahul: Thanks for the opportunity. I just wanted an update on the U.S. business, including the investment made there. Thanks.

N. Subramanian: We hardly have any investment in the U.S. business. It should be in the region of Rs.3.5 Crore. The results of operations, we have a loss there because of again, there is some IND AS impact and also, while we launched this station in late January, we have also incurred some extra costs on account of visa and we have some delays in updating visa approvals so that has led to some cost, but I think they are more in the nature of preliminary pre-operating expense.

Prashant Pandey: Just to give an update on our operations there, if you remember, we had launched with frequency covering New York City. About one month back, we have added an FM frequency in New Jersey, which is where the biggest congregation of South Asian and Indians in particular is. So now we are covering the tri-state area really in a deep way and we see a lot of unseen revenues in the months to come.

N. Subramanian: Also, in the U.S. operations, the first year will be a lot about the marketing investments, developing the listenership, building clients. So, we do not expect it to be EBITDA profitable in the first year. We had guided earlier also when we launched the station that we expect it to achieve breakeven in about 12 - 15 months.

Rahul: Thanks for the response.

Moderator: We will take the next question from Rohit Dokania of IDFC Securities. Please go ahead.

Rohit Dokania: Good evening. Thanks for the opportunity. I just had sort of one question. Can you talk about what is the competitive advantage that we have in the solutions business? And also, who are the key competitors out there? I know it is pretty fragmented, but if you can name a few? Thanks.

Prashant Pandey: In a way, we envisage the solutions business, there is no definitive entity which exists, but everybody is making small efforts at it. So, let me tell you who the players are. For instance, if you take the television side of the business, then some of the financial channels, like the CNBC, the ET Now do a certain amount of live activation kind of business. If you take GECs and other entertainment channels, they do nothing at all. If you take newspaper groups, then some of them like my parent company, Times of India does a fair number of IPs. But again, that is mostly live entertainment or activation, and it is fairly limited in that sense. If you look at event companies, they do not do anything, because they just produce events for others. They do not build any IPs. Then there are digital companies, which do mostly digital work.

If you look at the landscape, and that is what the opportunity really is, there is nobody who actually goes to meet a client and says, "Tell me your problem, and I will get you the right mix." Now, remember, this is also not the job of a creative agency, because a creative ad agency creates the brand positioning and the brand concept. But typically, they do not execute. So, what happens is the client has creative idea from the agency, but it has to then go about identifying individual partners and event company here, a print company there, which actually fructifies the larger creative strategy. That is where we step in. We work hand-in-hand with the creative agency and we extend the creative idea down the line. We help the client achieve brand reach across the country, and also, of course, do stuff, which gets their sales moving. There is nobody who does that in a big way in the country. And on the digital side, in particular, there is probably nobody at all. I was talking about media dark markets and the combination of technology and content, I do not think that there's anybody who does it at all.

Rohit Dokania: Okay. On the competitive advantage, would it be the fact that you cut across as you said, it is not only restricted to radio, you can use any medium?

Prashant Pandey: Well, here are the competitive advantages? First and foremost, this is a very difficult business to do. It is a tough business on ground. Creating digital ideas is very difficult. You need to hire a lot of people. They are costly. It is difficult to retain them. And it is very difficult to lead them. Fortunately, for us, because we are radio and we have 350 people already fully absorbed in radio working for us, so we are able to leverage that strength in our solutions business. That is one.

The second thing is that there is a huge operating advantage that comes in because of the fact that we are present in 63 cities. A client sitting in Delhi or Bombay can handle Delhi or Bombay very easily but what about Jodhpur and what about Kolhapur and what about Shillong? It becomes very difficult for them to find solutions partners in those markets. Whether it is activations or concerts or whatever, that network of ours really helps us in a very big way.

Third very important is that we have a whole lot of local celebrities. If you remember, Mirchi does not have any national celebrity, with the exception of maybe one or two RJs. But otherwise, we have a lot of local celebrities. We have the best RJ in Nashik, Kolhapur, Ahmedabad. So, we have a lot of regional celebrities. These are big influencers of social media. And that is something that we can build into our solutions business and then, of course, the other thing is that the whole execution and all requires a lot of skills and over the last 10 years, we have kind of mastered that game, cost negotiation, the execution, finding the partners on the ground, learning the technology piece. These are all things that we have learnt over the last 10 years, which is the biggest competitive advantage.

Rohit Dokania: So just to add to that your scale would also be a competitive advantage in that sense?

Prashant Pandey: Yes, exactly. Like I said, 63 cities that is a big advantage. Thank you.

Moderator: Sir, do you want to add any closing comments?

Prashant Pandey: No, that is it. If we have not answered any questions, please feel free to contact us. The email ID is there in the investor presentation, and we will be happy to take your call. Thank you.

Moderator: Thank you. Ladies and gentlemen, with that, we conclude this conference for Entertainment Network (India) Limited. Thank you for joining us. you may now disconnect your lines.