Extraordinary Together

October 24, 2024

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 October 18, 2024 and pursuant to the provisions of Regulation 46(2)(oa)(ii) 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 October 18, 2024, on the Company's performance for the quarter and half year ended September 30, 2024, is enclosed herewith. The said transcript is also available on Company's website at:

https://assets.zee.com/wp-content/uploads/2024/10/Q2%20FY25%20Earnings%20call%20Transcript.pdf

This is for your information and records.

Thanking you,

Yours faithfully,
For Zee Entertainment Enterprises Limited

Ashish Ramesh Agarwal

Digitally signed by Ashish Ramesh Agarwal
Date: 2024.10.24 15:59:31 +05'30'

Ashish Agarwal
Company Secretary
FCS6669

Encl: As above

Zee Entertainment Enterprises Limited

Q2 FY 25 EARNINGS CONFERENCE CALL

October 18, 2024

Transcript

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '25 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 star then zero on your touchtone telephone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Mahesh Pratap Singh, Head of Investor Relations, Zee Entertainment Enterprises Limited. Please go ahead, sir.

Mahesh Pratap Singh: Thank you, Ryan.

Hello everyone. Welcome to our Q2 FY '25 earnings discussion. We hope you have had an opportunity to go through the 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. Mukund Galgali our acting CFO. We will subsequently open the floor for Q&A session.

Before we get started, let me remind everyone on the call 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 will now hand the call over to Mr. Goenka for his opening remarks.

Punit Goenka: I hope all of you are doing well and gearing up for the festivities! Let me take this opportunity to wish you, much in advance. May this Diwali bring in lots of happiness and prosperity to each one of you. Hope you all have planned a good break with family!

I appreciate your time and would like to thank you for joining us this evening, as we discuss the Company’s performance during the second quarter of the financial year 2024-2025.

Being an eternal optimist; to me, optimism is not just an approach, but a conscious choice. A choice that enables me and my team to transform challenges into opportunities.

The strategic growth plan that has been implemented, stems from this firm belief. Today, I would like to touch upon the steps taken, in line with this plan, to achieve our targeted aspirations for the future.

We aligned our strategic priorities to enhance our performance and profitability levels across the board, with Frugality, Optimization, and a sharp Focus on Quality Content as the core pillars. I am pleased to share with all of you, that this approach is displaying tangible results for the Company, and we are witnessing a consistent improvement in performance on a sequential basis.

A more prudent cost discipline and sharper focus on operations has enabled us to clock strong improvement in EBITDA margins, coupled with robust free-cash generation, even amidst an incessantly challenging macro-economic environment.

Let's look at the Subscription Revenues. The outlook remains healthy as the underlying effects of NTO 3.0 have stabilized. Amidst this scenario, the Company has consistently displayed resilience and demonstrated its ability to grow, while judiciously balancing pricing and churn. We remain optimistic of a further uptick in subscription revenues in the second half of the fiscal on the back of healthy trends in our linear and digital segments.

On the advertising revenue front, while the sentiment remained subdued during the quarter, for the industry at large; we have seen some pickup from the month of September with the onset of the festive season. Hence, here as well, we remain optimistic about the upcoming festive quarter leading to an uptick in advertising revenues. That said, I must mention that a strong and sustained rural consumption pickup is surely needed for the industry at large.

Our viewership share across markets also witnessed an increase, which served as a testament to the concerted efforts invested by the teams in delivering more compelling and engaging content to our viewers across languages. The gains in market share quarter on quarter enable us to remain well-positioned in an increasingly competitive landscape.

Let's move on to the digital side of the business. The efforts sown in to achieve a balanced cost structure for the digital business are enabling us to dial growth back into ZEE5. The performance of ZEE5 is consistently improving quarter on quarter, showcasing immense potential, and we aim to achieve stability in growth from the third quarter onwards. We also continue to offer a compelling content slate to our users at a competitive price point. Post a thorough review and restructuring exercise, we have sharpened the scope of our Technology & Innovation Centre in Bengaluru, to support the linear and digital teams in a holistic manner on the content creation, distribution, and monetization process.

As we continue to enhance our performance sequentially, we remain enthused by the well-diversified portfolio of the Company, encompassing four strong business segments. This enables us to reduce dependencies and maintain a firm grip on profitability across the board. For instance, the music business has proven to be an asset for the Company in terms of building scale and margin. As the second largest music label in the country, Zee Music Company is enhancing its rich catalogue with a sharp focus on profitability.

As we step into the second half of the fiscal, the overall growth outlook for the Company remains positive. We have taken the necessary action-oriented steps to enhance the performance across all aspects, and we are confident on further strengthening the margin profile going forward. We are well on track to achieve our targeted margin aspirations, and we remain firmly committed towards our set goals for the future. The translation of our efforts into profitability is visible in our cash flow as well, which has inched up during the quarter and continues to strengthen our financial muscle.

As the industry continually evolves and competition intensifies, our ability to fortify our position as a formidable player in the ecosystem remains strong. I have always maintained that healthy competition augurs well for the growth of the industry at large, and it will only generate more opportunities for all the players in the ecosystem.

The Company has a proficient leadership team that will enable us to achieve our set goals and priorities for the future. With this dedicated and agile team at the forefront, we are confident of enhancing the Company’s capabilities by manifold to redefine the new era of entertainment. We continue to maintain a sharp focus on returning to our industry-beating margin profile as we invest in strengthening our business for the future.

As we work on these steps, we remain committed to fortifying our portfolio across all segments, with a prudent cost discipline approach.

Prudent cost discipline – is an apt point for me to hand over the call to the desk where the buck stops! Over to you Mukund – for you to elaborate more on our operating and financial performance.

Thank you, everybody.

Mukund Galgali: Thank you, Punit. Thanks for the introduction. Good evening, everyone, and it's great to connect with all of you for the first time at this forum. I will briefly touch upon some of the key financial highlights.

Q2 has been another strong quarter for Zee with focused execution on our key priorities. Before I get in to Q2 performance, let me sum up our progress against some of the key objectives we had outlined in February 2024.

In Q4 FY24 our EBITDA margins were at 9.7%. In a short span of two-quarters, we have improved our margins by 630 bps, to 16.0%. Our solid progress on margins improvement despite a weaker macro is a great testimony of dedication and hard work put in by the teams across the business. This margin improvement is a function of targeted bottom-up interventions across every element of cost structure and business segment, which gives us high degree of confidence about sustainability of this margin performance. Texture of this margin improvement journey is also extremely heartening given we have moved the needle significantly on strategic segments like ZEE5. ZEE5 Quarterly EBITDA losses have narrowed from Rs 265 crore EBITDA loss in Q4 FY24 to Rs 159 Crore EBITDA loss in Q2 FY25.

I will empathetically add here that, we are fully conscious about balancing our near-term margin aspirations with longer-term growth objectives and hence are also continuing to invest in the business to support future growth ambitions. In fact, in Q2 FY25 we have also stepped up our investments in the business which I will touch upon.

Translating our operating profits to consistent free cash has been another key focus area for us. With improving profitability, an extremely efficient working capital management and optimised content acquisition our cash position has also improved meaningfully. Including Rs 2 Bn FCCB proceeds during this quarter, our liquidity or cash and cash equivalent position has strengthened to Rs 17.8 Bn as on September 30th, 2024, compared to Rs 8.3 Bn as on December 31st,2023. With access to growth capital from recent FCCB raise and consistent internal accruals from our operations, we are well placed to navigate evolving market landscape and take advantage of emerging growth opportunities. Our content inventory and advances have also continued to trend down and are lower by Rs 5.1 Bn between December 31st, 2023, to September 30th, 2024.

On revenue growth front, while macro Ad environment softness has restrained our ability to drive advertising revenue growth, we have been able to drive healthy YoY growth in subscription revenues on back of price hike in linear business and subscriber growth in digital. We have also strengthened competitive positioning of our linear business with 60 bps network viewership share gain in last two-quarters. This positions us extremely well to capitalise on macro Ad spend recovery.

Now briefly coming to Q2 performance, while Ad revenue headwinds have persisted, as seen in an 8% YoY Ad revenue decline, a 9% YoY growth in subscription revenue has enabled us to more than offset that impact. A lean movie line-up has resulted in a muted other sales and services revenue during the quarter, against a very high base in Q2 FY24 due to Gadar2, which you all know was a massive hit. Resultantly, overall revenues from operation have been lower by 18% YoY.

We are optimistic about Ad revenue pickup in Q3 with onset of festive season, however, we will closely monitor sustenance of that pickup beyond the festive spike as rural demand commentary is still uneven. On subscription side, we remain confident about maintaining the current growth trajectory. We are also looking forward to planned movie releases in H2 FY25 across Hindi and language markets which should provide some fillip to other sales and services revenue.

From an industry backdrop perspective, the linear industry landscape remains healthy, with TV viewership and reach remaining stable. ZEE continue to be India's strong #2 TV Entertainment network and gained 100 bps of viewership share QoQ, taking our viewership share to 17.4% in Q2 FY25. This QoQ network share gain is quite broad based, driven by viewership improving across several language markets.

On the digital side, ZEE5 continues to make steady progress and deliver healthy KPIs for usage and engagement. Both the number of paying subscribers and average watch time have grown during the quarter. ZEE5 revenues are up 6% QoQ and adjusted for one time syndication deal which happened in the base quarter last year, ZEE5 revenues are also up YoY. ZEE5 EBITDA loss has further narrowed during the quarter, and we are hopeful of it to continuing to trend down as growth picks pace in H2, providing some operating leverage.

Moving to costs and profitability, our strong cost discipline is evident across all cost line items. Our efforts towards right sizing our cost structure and improving efficiencies are yielding encouraging results. This is evident from our EBITDA margins improving by 320 bps QoQ. Along the way, we are also taking some of the cost efficiencies and investing back in the business. As an example, this quarter Zee TV had three new show launches, while we stepped up content and marketing investments across the broader linear portfolio. We have also reinstated salary increments for our entire workforce effective September 1st.

PAT from continued operations for Q2FY25 was at Rs 210 Cr, a robust increase of 61% YoY. This net profit from continuing operations is at a 10-quarter high, reflecting significant progress in business fundamentals and a streamlined cost base.

I have already covered balance sheet trends in terms of cash buildup and inventory reduction. From cash deployment point of view, we are evaluating few potential areas and would remain fairly opportunistic and flexible in our deployment approach to maximise returns.

Moving into H2 FY25, having already made good strides on margins, accelerating revenue growth is a key priority for us. We are prepared to further step up investments wherever necessary, keeping that growth objective in mind. We do expect a gradual recovery in Ad revenues from Q3 with festive season kicking off. We also expect to sustain growth in Subscription revenues and ZEE5. On margins, having executed meticulously on our cost intervention action plan in H1, path of further margin expansion now has a higher degree of dependency on growth and operating leverage. Having said that, we remain firmly committed to our 18-20% EBITDA margin aspirations by end of FY26 and believe we will continue to balance the dual objectives of stepping up growth while managing costs very judiciously.

Back to you Mahesh

Mahesh Pratap Singh: Thanks, Mukund.

Ryan, we can open the call for questions.

Moderator: Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. Our first question is from the line of Abneesh Roy with Nuvama. Please go ahead.

Abneesh Roy: Yes, thanks and congrats on good margin improvement. My first question is on the content and there are two, three sub-questions to that. One is now your financial position margins are improving. So, in terms of content sourcing are you now in a better position versus say one year back when things were more challenging for you? Second is, we have seen in the movie production for other players, I am not talking about Zee, I'm talking about say Dharma productions one week it comes Saregama is acquiring, second week, it comes Reliance is acquiring. We had seen Vashu Bhagnani bankruptcy-related news flow. So, my question here is what are your thoughts on the consolidation of the movie production, especially in Hindi? And where do you see Zee in that from a 2 -3 years' perspective would you like to become a more serious player there given the very high risk which is there and that's why we are seeing the legacy players also looking to kind of sell out. So, what are your thoughts on why this is happening? What is the issue and what will be your plans on movie production from 1 -2 years' perspective? That is the first question?

Punit Goenka: Yes, Abneesh, so I don't think that it was really a challenge for us to acquire content. Even a year back, we were acquiring a lot of content for both our linear business and for our digital business, but of course the current financial situation gives us better leverage and better opportunities where we can look at wherever opportunities do come up that we can use that using our cash situation. Having said that, our objective on managing our inventory and advances will always remain also quite prime from that perspective. So, it must be a balance between the two things.

As far as your question on the film business goes it's very difficult to compare people likes of Dharma or the others with Zee because we are at the end of the day a corporate and they are actually for lack of a better word they are, individual run companies. And this could be just their way of cashing out while the things are going well for themselves. Where do I see Zee? I think we will be at the forefront of film production business, not just in Hindi, but across languages in the country. And we will continue to invest in both co-productions and full productions of our own in both the segments of Hindi and language markets going forward.

We did slowdown that in the past 1.5 years, but I think the slate is picking up speed again and there are huge opportunities that may come up. Of course, acquiring any of these players that you talked about, it's very difficult to assess because at the end of the day the talent is what is running those businesses. And if we do not have long-term commitments from the talent, what are we actually buying? So, from that perspective, we are evaluating those things and seeing what we need to do. But certainly, we will continue to be in this business going forward. Yes, you were right when we said that it's a high-risk business, but that's the case with any content piece that we run. Even on our linear business or on our ZEE5 not every piece of content that we launch is successful. We do get it wrong at times and that's the nature of the business that we are in. Mukund talked about Gadar 2 in the FY '24 same quarter. Now that was a huge lottery for the company. So, these things are part of that, but the way to look at it, Abneesh, from our perspective is that this is a completely a strategic part of our business because it feeds into our core business of linear television as well as into our digital business of ZEE5, plus the music business. So, from that perspective, I think that is something that I would like to say.

Abneesh Roy: So, my question will be on your last point of music. So, we have seen the two listed music companies' stocks also do well and business also do well. Zee Music used to be quite a serious player a few years back. So, what will be your thoughts there because music is much lesser risk versus movie production and now at some stage the consumers are turning pay. What will be your thoughts there, lower risk, improving metrics in the next 2-3 years' perspective in music?

Punit Goenka: No, absolutely. I think music as I said in my opening remarks as well is one of the key pillars of the segments that we run. And we will continue to invest behind that going forward as well. As I said that we may have slowed down because of our entire film production business, etc. I truly believe that going forward, music will continue to be a key asset for the company, and we will continue to invest behind it.

Abneesh Roy: Last quick question. So, we have seen the merger of Reliance and Disney underway and if you could talk about competitive dynamics next 6 months to 12 months, how do you see that changing given there is a clear consolidation plus your own market share there is some improvement, and your financial metrics are improving. Plus, Sony now there is a big question mark on what their own strategy is. Of course, question mark is there for you also given the number one player now will be much, much bigger than you and Sony. So, could you talk about market share? What is the aspiration next 1-2 years? And competitive dynamics you see because of consolidation what can be the benefits of that? What can be the challenges because of that consolidation next 1-2 years?

Punit Goenka: So, two parts to that Abneesh. Firstly, let me say that and you have heard me say this many times, whatever the market share our aspiration would be in the next 1 or 2 years, I will never get satisfied with that also. We will continue to aspire to grow even beyond that. So, I don't put a number. We aspire to aim for the sky. And even on that journey, we may not reach the sky, but at least we will reach somewhere beyond what we are doing. So that will continue to be our DNA of how we operate.

In terms of consolidation, let's break it up into two parts. One is the linear business. As you will agree, we competed with both Disney Star and Viacom independently. By them coming together nothing much changes except that they may have a little bit more leverage on the advertising dollars that they can command given that they may have a significantly higher market share. So that is the only part where I can comment on. On subscription side, you know it is regulated so there is nothing that is going to change that from that perspective. On the digital side, as I understand and I may be right, maybe wrong, there entire strategy is sports focused whereas our strategy is completely entertainment focused and therefore I do not think that we are really competing in that space or that segment because as I have maintained multiple times that we are not going to enter the sports business very aggressively.

Abneesh Roy: Thanks. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Banerjee with ICICI Securities. Please go ahead.

Abhishek Banerjee: Hi. Thanks for the opportunity and congratulations on a good set of numbers. Sir, first question is with regards to how are you looking at ad revenues going forward? We have heard some mix commentary from FMCG guys with regards to how the rural demand is shaping up and given that this quarter or towards the end you would have seen some sort of traction that reached towards the festive season. If you could you just give us some color, that would be very helpful?

Mahesh Pratap Singh: So, Abhishek, on advertising side after a fairly muted July, August, we have seen some pickup in September and we see that continuing in the festive season. So, like Mukund alluded in his comments we are quite optimistic about pickup in festive season, but I think the bigger question which we are slightly cautious on, and we want to monitor is how that spike settles down once we are beyond festive season. There is a bit of tactical nature in spending as opposed to longer-term brand building kind of spending and so on. So, we need to see how this plays out and settles down. We are reasonably confident that the festive season Q3 will be better than Q2 because the direction is trending up. Q4 and beyond, we still want to wait and watch slightly more a couple of months and then take a view.

Abhishek Banerjee: With regards to the ZEE5 business, if I see that the incremental revenue whatever you are earning on a sequential basis that is going into EBITDA loss reduction. So, I mean is this trend likely to continue for at least the medium term over the next couple of years?

Punit Goenka: Yes, Abhishek. As Mukund was talking about, we do expect that the trend towards the downward trajectory of the losses reducing would continue. Obviously, we must monitor the business on a quarterly basis. As there may be sometimes when we choose to invest in the business which could have some amount of variation, but the overall trajectory would be in line with what we are demonstrating for the last three quarters.

Abhishek Banerjee: Understood. So, and you also mentioned about some salary increments being affected. So, with regards to the employee cost, what kind of inflation should one kind of price in going ahead now?

Mahesh Pratap Singh: So, Abhishek, if I got your question right, you are saying how should we think of the employee cost going forward?

Abhishek Banerjee: Right, yes at least on a YoY basis. Yes.

Mahesh Pratap Singh: Look from a Q2 standpoint you already have one month of increment in the numbers in that sense because, as Mukund alluded these were effective 1st September. So, to that extent, the one month of cost is already in the numbers. Yes, you should think of a little bit of effect of that coming in, but also keep in mind that our efficiencies have been coming in during the course of Q2 and you may not have had everything full quarter impact coming in and so on, so build that. I mean, it will be a little bit of a modelling. We are not able to give you a specific number, but only thing we leave with is there is a fairly high degree of control in cost in general and you would see that reflect as we move forward as well. That basic fabric is not getting changed in any way.

Abhishek Banerjee: Understood. Sir, so does that mean that the cost rationalization prospect at least from an employee cost perspective is over? Are more people churning out or has that kind of stabilized as of now?

Punit Goenka: Abhishek, whatever the cost realization has to happen has happened already in the business and including on the people side. Going forward, as any business has churn in employee, we will have those regular churns that happen, but that's part of our day-to-day life.

Abhishek Banerjee: Got it. So, the 18-20% margin guidance that you're talking about or rather aspiration that you're talking about, that is with regards to increasing revenue contributing to that margin expansion?

Punit Goenka: Absolutely. Yes.

Abhishek Banerjee: Okay. Perfect. Thank you so much sir. Thank you for the answers.

Moderator: Thank you. The next question is from the line of Umang Mehta from Kotak Securities. Please go ahead.

Umang Mehta: Thanks for the opportunity and congrats for the good margin gained. Just wanted to check, you mentioned about resuming investment in movies. Would be possible to give any number or any commitment you have made internally?

Punit Goenka: So, it is already part of our working capital, Umang. So, I don't think you will see any incremental working capital increase on that account. So, we will manage within that part. And as Mukund talked about our objective will be to keep bringing this inventory and advances levels down further. So, we will manage our entire thing that the film production also forms part of the same inventory that we are talking about. So, we will continue to operate in that. I will not be able to give you a specific number because we don't disclose that for competitive reasons.

Umang Mehta: Got it. Understood. And secondly on ZEE5, there was a media article wherein it was mentioned about some talks with Airtel, you are already there with Vodafone. I mean can they be substantial in terms, based on your past experiences?

Punit Goenka: We are in active dialogue with all our B2B distribution partners. And it will be difficult for me to say that will be substantial or not. Obviously, them being one of the largest telcos in the country, based on the deal that we do will have an impact on the ZEE5 numbers.

Umang Mehta: Got it. And just last one on the fund deployment. So Mr. Galgali did mention that you all are evaluating a few areas, but possible to give any more color on what you are evaluating?

Vikas Somani: So, as you said, we have been evaluating a couple of opportunities, but nothing has materialized so far. So, we are not at that stage where we can share any concrete information with you or anything meaningful, but we will keep evaluating those opportunities and we will remain opportunistic while deploying this capital and, of course, conscious of value accretion out there.

Punit Goenka: But just to give you a perspective to add to what Vikas said, it will be in the domain of entertainment genre that we operate. We are not looking at going beyond that business at all in any manner.

Umang Mehta: Got it. Helpful. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from JM Financial Limited. Please go ahead.

Abhishek Kumar: Good evening and thanks for taking my question. The first is a very high-level question, Punit. I just wanted to get your view on this linear TV versus digital from an ad budget allocation point of view. I mean the ad spend for linear TV has been soft for variety of reasons for almost 2-3 years now. The concern is it structural or is it just because of rural recovery etc? Do you think linear TV from a marketier perspective, still as relevant as it was a couple of years back and therefore, just as percentage of overall pie can go back to where it used to be?

Punit Goenka: So, Abhishek, I think it's not a simple answer. So, I will try and dissect it for your understanding. So linear television will remain relevant in this country for a long, long period of time. We are far from the reach that linear TV provides. Digital in its best case from would be at half of what liner TV does deliver today. And secondly, if you look at most of the digital advertising, its largely transaction based. Most of the advertising on television or linear business is brand-building based and therefore if a brand wants to advertise to build itself, they will have to continue to focus on the linear business because the reach that we provide is far greater than any digital platform in this country. Forget my own, I am talking about any digital platform in this country. Secondly, you should also look at the digital numbers by stripping them off. There are two aspects to digital in this country. One is the search as well as the social media. So, if you can strip that out and look at only the video part of the consumption on digital business, the revenues on linear business are multiple times higher than what digital can offer. And that's what we truly believe that India will always remain a TV and a digital market. It will not be a TV or a digital market, unlike the western parts of the world that you may be referring to.

Abhishek Kumar: Sure, a related question and more relevant for Zee Music. A lot of other players trying to monetize their content library by partnering with some of these digital platforms, Zee having such a large library of content both in cinema and music, do we have partner with some of the other music apps, platforms like we do with YouTube.

Punit Goenka: Yes, we do partner with most of them. When it comes to the music business, we are pure publishers. We are not creating platforms of our own unlike ZEE5 and therefore we do license our content to most of the digital platforms that exist plus we do license our content to even linear platforms that want to use our music for their content creation, etc.

Abhishek Kumar: Okay. Staying on Zee Music, we are the second largest. Some of the other listed music players, the market cap is closer to our market cap. Any plan to start disclosing some of the financials around Zee Music so that investors and analysts can appreciate the value of that business a little more?

Punit Goenka: Certainly, I have maintained at the right time, once the market stabilizes, we will start reporting our segmental details. But it is not the right time today and therefore we are not doing it yet. But you should certainly expect that to come from us in the coming future.

Abhishek Kumar: Sure. One last question on capital allocation. Now with free cash flow improving, any thoughts on going back to a formal dividend policy that we used to have earlier or is it still too early we have a lot more areas to invest in?

Punit Goenka: It is certainly something that we will take to the Board for consideration. As you know we are paying out 100% dividend this year which is again different from what has happened in the last couple of years. But certainly, we will be going back to the Board to look at the dividend policy and hopefully reinstate it back, given as you rightly said our cash flow position.

Abhishek Kumar: All right. That is all from my side. Thank you and all the best.

Moderator: The next question is from the line of Arun Prasad from Avendus Spark. Please go ahead.

Arun Prasath: Good evening, everyone. Thanks for the opportunity. My first question is on the again content spend. Punit, I remember that you telling us that when you are increasing the content spend a few quarters ago, the benefit of that content spend will come a few quarters later. Isn't it true for when we decrease the content spend as well because this should reflect in our share a few quarters later. So, is it the right way to think?

Punit Goenka: No, Arun, the fact of the matter is that despite whatever little spend we have cut on content, both on the linear and digital side, we have seen market share gains on both sides. So, it is not completely a mathematical equation, although sometimes when you get some extra content wrong, it could seem like that. But as I said earlier that wherever required, we may up our investment if needed for the business even if it means that margins may take a little bit longer to deliver.

Arun Prasath: Okay. All right. And so, does it mean still there is some room to cut some spends given that the market share seems to be inelastic to the content spend at this point of time at this level?

Punit Goenka: No, Arun. I don't think there is any more room for us to cut. In fact, you should expect inflationary growth to happen from hereon.

Arun Prasath: Okay. Understood. Secondly on digital, again you alluded to the fact that competition is primarily in sports, but we do not operate in that. But the fact of the matter is that primarily you are competing to grab the people's time, whether it is sports or say GEC. So how should we position ourselves now that even in the first half, if you see ZEE5 revenues kind of flat, maybe because we have cut the content or maybe because the competition is gaining. So how should we look at the overall. What is your aspiration in ZEE5 right now given the nature of the competition and how people are spending their time in the digital?

Punit Goenka: So, Arun, our aspiration for any business that we are in including the digital business will be to be in the top two categories. And right now, we are probably number four or number five and so step by step we want to grow and reach higher. Having said that, you are right that we are in the business for grabbing the time of people and where their space of mind etc, but we have effectively done that in the linear business itself. And therefore, I don't see any reason why that can't be repeated in the digital part of the business. And keep in mind that the sports business is very volatile. It is only when you have a big event that's happening that they attract viewership. Other than that, it is a regular content that gets consumed. And that's the game that we want to play out. And we will continue to do that. In fact, during those high-ticket sports -- this thing we don't even go out and put any high-ticket content of our own. We wait for those things to die down before we come out with our own top-ticket shows.

Arun Prasath: Okay. Just to get a clarification, what will drive the ZEE5 revenue? Now most of the benefit is coming out of the cost which has some finite limitation. So, profitability has to come from revenue growth. So, what will drive this going forward?

Punit Goenka: It is more subscribers. We have to go and get more subscribers. That is the only way to grow this. And, of course over a period time, we will take pricing also increase. Because today, we are one of the most cost-efficient OTT platform in the country compared to all our competitors.

Arun Prasath: Have you grown the subscriber base in the last few quarters because that disclosure is kind of unfortunately is not there. So, we are not able to gauge from that. How is the performance coming?

Mahesh Pratap Singh: Yes, we have stopped disclosing, but even back then, Arun, we were not disclosing paying subscribers. We were disclosing MAU, DAU kind of metrics. So yes, I mean, without giving you numbers which we cannot, our number of subscribers have grown both quarter-on-quarter as well as year-on-year, number of paying subscribers. So, both and not just the usage in the metric. But even when you look at the engagement metric which we track in terms of watch time, etc that has also grown at a pretty healthy clip. Now of course, the question that could be saying, look, if there's growth why the revenue growth is slightly slower than what it is and that is a function of mix change in terms of where the subscriber is coming from between different pay models and so on. And a roundabout way for you, I mean, as an outsider, while we don't report it, if you go and look at, let's say, Similar Web, App Annie kind of third-party metrics you would see the trends of usage, etc independently.

Arun Prasad: Understood. Thanks Mahesh and Punit. All the best.

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

Jinesh Joshi: Thanks for the opportunity. Sir I just wanted one small clarification on the operational cost side. I mean, if I look at the last two quarters, we have seen a decline of about 8- 9%. So, is it solely led by cutting the content spend or has there been any change in the amortization policy be it respect to shows, music or for example, movies?

Mukund Galgali: So Mr. Joshi, let me clarify there is no change in any amortization policy as far as content is concerned. That remains to be consistent in line with what we have been doing. Most of the cost optimization is mostly targeted at fixed costs. And as far as programming cost, which is variable in nature, is something which we will continue to deploy and invest in from time to time depending on the opportunities.

Jinesh Joshi: Noted. Sir, one last question from my side. If I look at our linear TV EBITDA margin after knocking off the ZEE5 losses, now that has improved considerably to about 27% in this quarter if I compare it with the previous three quarters. So, any specific initiatives do you want to share that we have taken on the linear TV side which has led to such kind of an improvement despite the decline in the ad revenue?

Punit Goenka: So, the linear business, Jinesh, has always been quite profitable for us. And we do expect that the margins will only continue to improve there. As we start to see tailwinds in the advertising growth, you will see only improvement coming in the margin structure of the linear business. So, I don't think there is any specific thing that we have done structurally for us to deliver on this. It is pretty much business as usual. Of course, we have to keep finding efficiencies and delivering better content for us to continuously keep improving on that. And that is why what we talked about the market share gain of 100 basis points over quarter-on-quarter will certainly help us as and when the headwinds turn towards benefit and growth, we should be able to seek advantage of that going forward.

Jinesh Joshi: Sure sir. Okay. Thank you so much.

Moderator: Thank you. The next question is from the line by Akshat Bairathi with RSPN Ventures. Please go ahead.

Akshat Bairathi: Hi sir. Thank you for taking my question. So, my first question is on the Star case that the Star has filed an arbitration case. So, can you share some details with us what is the current status of it and how much will it cost us to fight it in the court?

Punit Goenka: The second part definitely, Akshat, I will not be able to give you an answer because these legal cases are very prolonged and can be expensive. As far as the status of that case is concerned, they have put the claim that you may have seen already in the press. Now we are supposed to respond to that by end of this quarter which we will be doing. And then, of course, the proceedings will start in the arbitration courts in London that we are fully geared to address.

Akshat Bairathi: Got it, sir. My second question is on the planned movie releases. So, can you give us some pipeline of the move releases coming in the H2 and Q3 as well?

Punit Goenka: So, we have several movies coming in the H2. Of course, I will request Mahesh and Mukund to answer this.

Mukund Galgali: Akshat the big-ticket items which we have in H2, in terms of movie releases is Emergency which got rescheduled. But otherwise, Emergency is big movie, Game Changer is a south movie of Ram Charan and is another big-ticket release which is planned in H2.

Punit Goenka: And then, of course, we have a whole slew of small to mid films.

Akshat Bairathi: Got it. Sir, my last question is, do we have any internal targets for ZEE5 EBITDA breakeven, and can you share it with us?

Punit Goenka: I am sure that is a thing that we struggled with on a daily base. I will just reiterate what I said that the trajectory of losses reduction is well on its way, but given the competitive intensity of the market, right now we will not be able to give you a date when we will breakeven. But certainly, it will be within the horizon that you as an investor or an analyst would be able to model in your business plan.

Mahesh Pratap Singh: And just to add to what Punit said, Akshat, when we had given our aspiration of 18-20% EBITDA margin, we have worked a certain range of scenarios in that to be able to remain competitive in ZEE5, invest in what the market environment could look like and still have relevance. So be assured that when we talk about margin improvement from where we are to where we are going, that margin improvement journey is not hinged upon ZEE5 breaking even.

Akshat Bairathi: Got it sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Sameer Deshpande with FairDeal Investment. Please go ahead.

Sameer Deshpande: Congratulations, Mr. Goenka and the team for the spirited turnaround you can say, over the last 6 months. And I hope the things keep on improving going forward. Now in half 2, in the current release they have mentioned our revenue growth target is about 8-10% overall CAGR with the current portfolio, so does it mean that it doesn't include anything from the movie releases, etc which can be a bonus on that?

Mahesh Pratap Singh: So Mr. Deshpande if you are referring to the initial slide. That is the statement of aspiration we have laid out. That is really a longer-term view of the business when we say current portfolio, which includes all four businesses, linear, digital, movies and music. And what we are implying there is look as a portfolio of those four businesses put together, we would really be aspiring for 8-10% sort of revenue CAGR for the next few years. Subscription is already there, as we have said on that slide at about 9%. And that is really what we mean by that statement. It is not necessarily H2 guidance, it is more a longer-term revenue CAGR aspiration.

Punit Goenka: And as Mahesh said, this is a combination of all the four verticals. It is not attributable to any one vertical, it’s the overall organization target that we have taken.

Sameer Deshpande: Okay. So, in half 2, first half movie releases, etc were not that much. In the half 2, can we expect that income to be significantly better?

Punit Goenka: Yes, sir we do.

Sameer Deshpande: Okay. And another thing is this independent committee report which has been given on 8th of October by the Board. So, will it be binding on SEBI?

Mukund Galgali: The report that has been submitted to the Board, and it will not be binding on SEBI.

Punit Goenka: SEBI's investigation is independent of that sir. This was a report that was in process that the Board had instituted within the organization to satisfy themselves and nothing of whatever allegations SEBI has made are of any relevance, so it is respective to that.

Sameer Deshpande: Maybe it will help them close the case early, let's just hope?

Punit Goenka: I am always an optimist, let's see.

Sameer Deshpande: Okay. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Navid Virani with Bastion Research. Please go ahead.

Navid Virani: Thank you for the opportunity. I have two questions. First one is on movies. So, we have said that we are going to intensify investments in movies which we have not done in the last few years. So, I just wanted to understand that are we working with a particular ticket size in mind beyond which we are unwilling to go as far as movies is concerned? I mean just trying to understand that even if, let's say, movie fails it doesn't really hurt us that much?

Punit Goenka: So, Navid, as I said earlier the movie production business is a bit risky business. But we do evaluate every opportunity on films basis what we believe that it can do both on box office as well as on the other revenue streams whether it's digital or television and music. So, we have not put a limit to the ticket size. But, if you look at what Mukund talked about in the second half of the year, we only have two big-ticket films coming out. So, it's a combination and a portfolio approach that we use. We do multiple films; few may be high-ticket, and the rest would be medium to small size. Mukund, do you want to add?

Mukund Galgali: Yes. And Mr. Navid I would also like to add that from a risk mitigation point of view, we also try to see that these are underwritten by digital and linear commitments. So, the exposure is not only linked to the theatrical box office.

Navid Virani: That is helpful. Second one is on the fundraise. So, from what I am able to see right now in the presentation, we have only raised a fractional of funds which we have set up, so is there a thought process on the fundraise, is there any timeline in place or that fundraise will be contingent to opportunities coming our way?

Vikas Somani: So, as we have said we have been evaluating a few opportunities, but nothing has materialized. So right now, we have no plans of calling in or going for another tranche in the immediate future. But yes, to some extent you are right, it depends on the opportunities as we come across and when they materialize.

Navid Virani: That's it from my side. Thank you for the opportunity and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question and this concludes the question-and-answer session. I now hand the conference over to Mr. Mahesh Pratap Singh for his closing comments.

Mahesh Pratap Singh: Thank you everyone. Thanks for joining us today. We hope all your questions were answered. Do feel free to reach out to us if you have any follow-up questions. We will be available and look forward to speaking to you. Wishing you a great festive season ahead and have a great weekend.

Moderator: Thank you, sir. On behalf of Zee Entertainment Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.