



“Sun TV Q1 FY '20 Earnings Conference Call hosted
by Axis Capital”

August 09, 2019



MANAGEMENT: **MR. R. MAHESH KUMAR - MANAGING DIRECTOR, SUN TV NETWORK LIMITED**
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MR. V.C. UNNIKRISHNAN - CFO, SUN TV NETWORK LIMITED

MODERATOR: **MR. ANKUR PERIWAL – AXIS CAPITAL LIMITED**



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Moderator: Good day ladies and gentlemen and a very warm welcome to the Sun TV Q1 FY '20 Earnings Conference Call hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital. Thank you, and over to you, sir.

Ankur Periwal: Good evening, and welcome to Sun TV Networks Q1 FY '20 Conference Call. The call will be initiated with a brief management discussion on the quarterly earnings performance, followed by an interactive Q&A session. As usual, we have got with us Mr. R. Mahesh Kumar – Managing Director; Mr. S.L. Narayanan – Group CFO; and Mr. V.C. Unnikrishnan – CFO.

S.L., would you like to add some opening remarks or should we open the floor for Q&A.

S. L. Narayanan: Yes, in the interest of clarity, I just want to give 1 data point, so that much of the questions on the IPL numbers get preempted. We had a little bit of revenue getting recognized in the preceding quarter because the IPL started off in the last week of March this season unlike the first week of April last season. So, all revenues were booked in the quarter ended June of 2018 last year, whereas in this year, these revenues have traveled 2 quarters, that is March '19 as well as June '19.

The other thing which I want to just park here is, the overall revenues that we earned through the distribution from the central sponsorship kitty for the current season, as compared to the previous season, was down by about 70 crores. That is something which is driven by the formula based on which the distribution is happening because we are not privy to what we broadcast or have signed off with BCCI. So, we had a high number last year. It is going to be lower this year and apparently, it will go up again next year. So, what seems like a massive fall in the IPL operations is actually to be seen in this context. So, I just thought I will pass that data point before we start the call. And now we can start off with all the Q&As.

Moderator: Thank you very much. Ladies and gentlemen, we will start the question and answer session. The first question is from the line of Siddharth Bera from Nomura Securities. Please go ahead.

Siddhartha Bera: Sir, my first question is on the ad side. What is the outlook for this year given the first quarter we have seen a 2% growth? So, any color if you can give how is it likely to trend for the remaining part of the year?

S. L. Narayanan: I think the whole country is going through kind of a bearish phase for a variety of reasons and it's all driven by the macro headwinds. So, we are seeing a lot of deceleration in sectors like



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auto and real estate and because of that, there is some multiplier effect which is pulling down the momentum in the economy. So, if you look at all the numbers that have come out from FMCG companies, barring some notable exceptions, like Asian Paints, everybody is painting a very down outlook. So, in that context, we shouldn't expect anything spectacular for the remaining calendar year at least. I mean, people are saying that if the monsoons are good, things will pick up because of better spending power coming into the rural economy. But all that is still a guesstimate. So, I think the outlook for advertising this year is pretty challenging. And I don't think we can give any guidance that we are going to do even reasonably well on advertising. I think we need to set expectations very reasonably. So, it will be lucky if we end up with a mid-single-digit kind of a growth this year. So, that is the kind of outlook, as we see the remainder of the financial year from this standpoint.

Siddhartha Bera: Got it, sir. But any benefit do we expect from our new launches in the Bangla genre and our market share in Tamil, how does it behave? And anything can we get from...?

S. L. Narayanan: Yes, our ratings are considerably improved in the last 4 weeks. And I request Mahesh to give you some headline numbers.

R. Mahesh Kumar: Yes, I think, especially in Tamil, if you look at Sun post the impact of the tariff order and also the change in the distribution landscape, we have seen some good bounce back in the overall rating numbers. In fact, in between in B28, we had gone as low as 908 GRPs. This week, the ratings which come out yesterday, we are 1130. So, we are, I think, improved by over 20%, which is closer to 3% of the market share gain, which we are able to demonstrate. And parallel we are also seeing some of our competitors losing substantial share in the market in TN. Similarly, even in Andhra Pradesh, we are making some decent gains. In the picking order, this time, we have become the #3, and the gap between #2 and #3 is very, very marginal. And in the fiction, we have grown substantially in Telugu, Tamil, and to some extent, even in Kannada. So, whatever the packaging which we have been working on improving the content is paying off, but we are having, like last week we had a new launch in Tamil. We have series of launches happening. So, we are extremely confident and hopeful that we will further improve gain actually in further market share which will translate into better monetization. So, we are able to improve the overall market share. Definitely, we will also improve the revenues accordingly.

Siddhartha Bera: Okay. But on the cost side, so content costs, sir, we are seeing a very sharp increase in the quarter. So, can you throw some more light on that front, that is it sustainable? Or is it going to normalize? So, anything you can highlight on that front?

S. L. Narayanan: On the content side, basically, if you look at last year's same quarter index, one of the big-ticket items, which doing an increase is primarily because of the Bangla launch, which was not there last year. So, that will be approximately 15 crores - 16 crores of incremental content cost



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which has come in. Otherwise, I think it should normalize at this level is what I think is our estimate.

- Moderator:** Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.
- Jay Doshi:** Could you please first give us the breakup of revenue, and I mean depreciation, amortization, and the usual data?
- V. C. Unnikrishnan:** Depreciation is 21 crores and the amortization is 137 crores.
- Jay Doshi:** Right. And the breakup of revenues, please?
- V. C. Unnikrishnan:** Advertisement revenues is 368 crores, broadcast is 10 crores, international subscriptions around 41 crores. Pay channel including digital is about 169 crores. DTH is 228 crores. Movie production is around 41 crores. IPL is 244 crores.
- Jay Doshi:** And so the movie production-related cost would be how much in this quarter. So, there is 141 crores of revenue recognition, right? So, there will be some bit of...?
- V. C. Unnikrishnan:** Movie is only 41 crores.
- Jay Doshi:** Sorry, my mistake. Sir, there will become expensing related to that in the amortization item, right, other than the satellite rights? What are those?
- V. C. Unnikrishnan:** 30-odd crores.
- Jay Doshi:** Thank you. Second is, sir, domestic subscription revenue, if what would be the growth, sorry, I just got the number. So, overall growth for domestic subscription will be around...?
- V. C. Unnikrishnan:** Pay channel is around 70% and DTH is up by around 8%.
- Jay Doshi:** Correct. So, is there any one time or one off or catch-up revenue component in this given that there is a huge divergence between DTH and pay channel, so.
- V. C. Unnikrishnan:** Yes, because, I think, initially, the order, the NTO was to be implemented during the March quarter. So, there is some amount of catch-up revenues, which got accounted for during April and May.
- Jay Doshi:** Correct. So, what would be the underlying growth in that case? And would you be able to give us some indication of what we should expect for the full year?



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- V. C. Unnikrishnan:** I think it is the first quarter, which is where the new tariffs orders will be implemented. So, I think it will take some more time before we have an exact clarity on how the numbers settle down. Because in the first quarter, there has been a lot of challenges in terms of SMS being ready.
- Management:** Getting the numbers from the operators from DTH, all that is becoming a challenge, but things are now settling down. So, I think we should be able to get some clarity during the Q2 actually.
- Jay Doshi:** No, at very broad level, will it be upwards of 20% or under 20%. I mean 15-20?
- V. C. Unnikrishnan:** No, upward of 20% should be definitely achievable.
- Jay Doshi:** 20% plus for domestic subscription?
- V. C. Unnikrishnan:** Yes, certainly.
- Jay Doshi:** Great. And in terms of IPL. SL, I did hear your opening remarks. So, the gap between last year and this year, the operating profit level is about 75-odd crores, it was 200 crores last year, 125 this year for the entire season. And I think last year, you had a one-time component of prize money some 1520. So, still there is a gap of roughly about 50 crores - 55 crores. So, what should be the sustainable or more like a normalized number over the 5-year cycle?
- S. L. Narayanan:** Jay, the reason why this is a very difficult thing to get a handle on is because of the way the broadcaster has negotiated the deal with BCCI. While we know it is 16,500 crores for the 5 years, we really don't have much color on what is going to be the payment that they will give to BCCI every year. And then we also have other sponsors like Byju's so I think
- Management:** The sponsors and the ticket sales have shown, the ticket has shown an increase.
- S. L. Narayanan:** I think we should be able to do much better in the coming years because if I look at the number that has been contracted, which is in the public domain, it seems to me that the remainder of the year is going to be a better thing than what this year is. That's the only way I can prognosticate because we really don't know how they negotiated the deal, whereas the earlier dispensation with Sony we knew that it was heavily back-ended. It was almost like 1/3 in the first half and 2/3 in the second half. And each year, it was a very steep climb in terms of the distribution. So, I would imagine that it will probably go back to around, may not be 200 crores, but maybe around somewhere between 125 crores and 200 crores, assuming that we don't win the tournament.
- Jay Doshi:** I got it. That is helpful. Okay. I understand the difficulty in predicting or projecting it in your annual base.



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- S. L. Narayanan:** And plus also there I think last time, we were at the #1 position in the net rate. So, that also gave us some significant uptake. I think we have been telling that it's based on the position, which there is an increase in number.
- Jay Doshi:** Right. So, I guess, adjusted for all that, maybe last year was 175 crores or 180 crores, this year is 125 crores. For next year, will be somewhere in between or at least higher than the current year?
- S. L. Narayanan:** It will definitely will be higher than this.
- Jay Doshi:** Okay. That is helpful. Finally, what are your contracts or agreements with the key content producers in Tamil market? Is that exclusivity clause still pretty much there or applicable in that context?
- S. L. Narayanan:** Yes, very much.
- Jay Doshi:** And what would be the ad inventory sharing that you have done right now per hour?
- V. C. Unnikrishnan:** It depends on the time slot. So, basically, I think, on a 7 minute to 8 minute, they get 3 minutes average.
- Jay Doshi:** For a half an hour episode? So, there is no change per se?
- V. C. Unnikrishnan:** No change.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.
- Kapil Singh:** I just wanted to check, is there any update on promoter compensation for the current year?
- S. L. Narayanan:** Same level as the last 2 years ago.
- Kapil Singh:** Okay. So, I mean, it has remained at this level for the last 2 years. So, is there a long-term policy to fix it here if you can give that? I think that will be more helpful. You have discussed that in the past as well.
- V. C. Unnikrishnan:** We have made an announcement, I think; it has been sent to the stock exchange, that for this financial year it will remain the same numbers as last 2 years. Going forward we'll get back, we'll inform, talk to the Chairman whether he is giving a projection for the next period also.
- Kapil Singh:** Yes. I mean, the question here is, what should be the long-term policy that we should assume? And also, if there is any update on our dividend policy?



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S. L. Narayanan: Kapil, I think in the absence of any definitive announcement, you should only take this announcement as an indicative and say that this is being pegged at levels, which date back to FY '18. So, we are now saying that there is no difference from the compensation that was paid for the last 2 financial years. So, this financial year also, it will be pegged at the same level.

Kapil Singh: Okay. And on the dividend policy?

S. L. Narayanan: If this happens over the next few years, I think you will get some comfort that the compensation is not going to be changed. I think that's the way I will read it because beyond this we can't give any, I mean it is not for me to say that this is it and it won't change. For all I know it could change next year. I don't want to say anything now because I'm not authorized to say this.

Kapil Singh: Okay. Yes. And on the dividend policy, can you give an update?

S. L. Narayanan: We generally are paying out around 45% to 50% of the available disposable profits. I think that is the kind of number that we will be doing it. Also, sometimes, we have taken up liquidity levels to a higher point because there were some opportunities which seem like doable. And that's the reason why we did keep some money. And also we are now at a time where cash is king. I think we are running a company, which is extremely prudent in terms of financial norms. It continues to be completely debt-free and very liquid. We have close to more than 2,800 crores of cash ends of 30th June. And we plan to hold some excess liquidity because times are very uncertain and cash is king. But we will continue to pay fairly regular dividends. And the reason why it seems like it's fallen this year as compared to last year is because last year, we had the special dividend for the 25th anniversary. But suffice it to say that we would be generous in distribution anywhere between 40% to 45%.

Kapil Singh: Okay. And could you also give an update on the movie production plans for this year if there is any details to share?

S. L. Narayanan: There is an ongoing production happening. It's slated to be released sometime in end of September. And one more should happen before end of March. The second one has not started as yet. We did one, movie released during April. September, there's one more movie that is almost in the final stages of production. Shooting is almost complete. And the third one, we are targeting before end of March.

Moderator: Thank you. The next question is from the line of Deep Shah from Ambit Capital. Please go ahead.

Deep Shah: My first question is really on subscription. Sir, your comments on bundle adoption, was it a la carte and if you can share the subscriber count in ARPU, that would be helpful. Secondly, sir,



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what is the Capex that you see in the movie acquisition space given that lot of your peers has been very aggressive recently? And what would be the market share in movies? Thirdly, based on the recent results, it seems that around 15% MSOs have lot of subscribers, but DTH has not gained. So, if we can highlight what has been your network reach in your markets that will be helpful.

R. Mahesh Kumar: So, basically post tariff and at least from the viewership point of view, it has taken a big impact. Plus, over the past couple of weeks in all the key markets, we have bounced back and we are coming close to the pre-MTO regime so, now our focus and objective is to get back to the reach percentage it was providing prior to the implementation of the tariff order. So, in every single market we are working towards that. So, we are making all efforts in terms of ensuring that the channels are placed and it is carried by all the DTH and the cable operators and it is placed in the appropriate MCM so it is accessible to majority of the subscriber universe. So, that is why you are also seeing a good improvement in the rating numbers. So, that's the last question. We are not able to follow the other questions. Can you just repeat the question?

Deep Shah: Yes. So, on the subscription landscape, how has been the bundle adoption versus a la carte? And if you can share your subscriber count ARPU?

R. Mahesh Kumar: I think it's too early. Very few subscribers have opted for this a la carte. Majority of the service providers and the customers have opted for the entire bouquet of channels.

Deep Shah: Right. So, one last question on the movie side. Given that one of the peers has been very aggressive in the southern markets, how do you see the capital intensity in the movie acquisition space? And your comments on market share that you will have in the movie side in southern markets?

S. L. Narayanan: Yes, I think we still continue to buy a good amount of movies. More than 60% or more of the movies released across the southern markets are purchased by us. And if we look at the last, maybe couple of quarters, a lot of big-ticket names have been come into our kitty. So, I don't think there is any pressure there. Prices keep changing depending on, like I said, certain competitors increasing at certain points in time. But otherwise I think we are comfortable in terms of our acquisitions. We should look at upward of, for the financial year, maybe about 300 crores or 325 crores. Let's see budget at this point in time. It could move depending upon any high ticket movies coming towards the second half.

Moderator: Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.



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- Sanjay Chawla:** My first question is on, looking at the content costs obviously they have doubled Y-o-Y and you said partly due to Bangla impact, launch impact. If adjusted for 15 crores, 16 crores of Bangla-related content cost, I am still getting a 25% increase in content costs excluding the movie part on a Q-o-Q basis. So, can you please help us understand what exactly is driving this? What sort of content has gone in, which is reflecting in the past year on a Q-o-Q basis? And second question is on the cash balance, you mentioned is more than 2,800 crores. What was it as of March end? If you could share that number also? And thirdly, what was the receivable level at the end of June?
- S. L. Narayanan:** I think, Sanjay, the point is we have moved apart from the Bangla. I think that if you look at the broadcast revenue also has come down. So, there has been some shift of programs in the Tamil space from the old telecast model into the new model. And there have been newer programs, which have a slightly higher cost in the other three languages which has increased the cost of content primarily in the current quarter. I think that is one question. Second, this is what is...
- Sanjay Chawla:** It was any nonfiction, any major reality show or anything, which was launched this quarter, which is reflecting here?
- R. Mahesh Kumar:** Yes. It has happened in the Malayalam genre, so where we have a daily nonfiction shows Super Singer. So, if you look at like adding to what we said, the moving of the slots from the private producer to the commission, the cost of content for the Sun TV has gone up by close to 10 crores, so Gemini is more or less static and Udaya is static and Surya Malayalam, we have done a nonfiction show, which is overall improving, increase the cost around 5 crores - 6 crores and Bangla is around 15 crores.
- Sanjay Chawla:** Okay. And so this is a sustainable level of content costs for the coming quarter?
- R. Mahesh Kumar:** Yes, this will be more or less the fixed detail.
- Sanjay Chawla:** On the cash balance and receivables?
- V. C. Unnikrishnan:** March numbers, unfortunately, I don't have it at this point. I don't remember that. I don't have the numbers exactly.
- Sanjay Chawla:** Maybe I'll take it offline.
- V. C. Unnikrishnan:** Yes, right. What was your third question?
- Sanjay Chawla:** What is the level of receivables as of end of June compared with the fourth quarter?



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- V. C. Unnikrishnan:** It was around 1193 crores overall. So, I think in terms of number of days, I think it's -- the advertising is slightly up from about 98 days to around 101 days. DTH revenue also slightly stressed for some time. So, it is from about 120-odd days, it's up to around 140, 145 days.
- Sanjay Chawla:** You mentioned about ad and DTH going up. Which is the other component, which is also impacting the receivable level?
- V. C. Unnikrishnan:** International, I mean, the amount is not very significant. But I think that has also slightly gone up from what the 3 months, 3.5 months, is up to around 5 months. So, I think otherwise things are okay with this. The larger components are obviously advertising and the DTH revenues. And I think our group company numbers have come down. In fact, earlier it was at a much higher level, it has come down to 4 months, 4.5 months outstanding. So, there is a significant component product change more than between last quarter and now. It's positive.
- Sanjay Chawla:** Okay. And just last a quick question on; you mentioned about expectations of maybe you said you will be lucky if you do a mid-single-digit growth rate on the ad revenue front. We have started on a reasonable note. I mean, we are not down Y-o-Y in this quarter, and obviously, there is still festival season and stronger quarters which are still there. So, I am just wondering, I mean, are you seeing something in the environment, which has changed, which doesn't make you optimistic about the festive season also?
- S. L. Narayanan:** The kind of news that's coming. See auto sales are down, tractor sales are down. 2-wheeler sales are down. There's an enormous unsold inventory of homes. Everywhere, when we turn around we see only bad news. So, that is the reason why I am saying that we shouldn't build any major expectation. Of course, our people on the ground are working harder than ever before and we are looking at very innovative ways to give greater value to advertisers, so that we garner more wallet share. All that will happen. Our own internal targets are much higher than 10%. But I am saying that looking at the horizon with so many macro headwinds, it is not fair on our part as responsible management to put out any kind of rosy expectations because there's bad news all around.
- Sanjay Chawla:** Understood, sir. Are you seeing similar caution from the regional and local advertisers because they are also contributing a significant amount to your number?
- S. L. Narayanan:** Absolutely. All, like, for example, the retail trade in Tamil Nadu has been very cautious. Generally, there is a big push of advertisement during the season because this month is called Adi. All the guys have put up during this month, which is for 30 days. Their spend has actually shrunk a lot because there is no liquidity in the system. People are actually not seeing any ROI in terms of putting money in on the ad. So, there is no walk-in. People are not coming in, purchasing clothes, et cetera. So, overall, that's what I think from a macro point of view, things are not looking very rosy. So, there is a liquidity crunch. So, I think we are seeing every single



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sector, if you take automobile, there are close to 12 companies based out of Delhi, there has been a huge cut in the ad spend. Consumer durables that also has gone down. FMCG growth, you can see even Godrej is reporting literally 0% to 1% growth, HUL 6% growth, Colgate 4% growth. So, I think if the growth rates are shrinking like this then obviously to maintain the margin they are taking a cut on the ad spend.

Moderator: Thank you. The next question is from the line of Gaurav Agrawal from Bowhead Investment Advisors. Please go ahead.

Gaurav Agrawal: Sir, on the subscription revenue, when do you see these revenues stabilizing? And what will be the run rate for this number when this gets stabilized?

R. Mahesh Kumar: It will take at least the next 1 or 2 more quarters because things are getting stabilized, all the service products having the subscriber base. You will see some stability happening in the next couple of months.

Gaurav Agrawal: But sir, what will be the stable quarterly run rate? Like currently, it is around 396 crore is what you reported in Q1. So, like when will you get all the benefit of digitization? So, by when are we expected to get this full benefit? And when we will get that benefit, what will be the quarterly run rate from that point onwards?

V. C. Unnikrishnan: Gaurav, like Mahesh was mentioning, we have just reported the first quarter number. So, once we go through maybe 1 or 2 quarters when we would also have an exact idea. Like you mentioned earlier, getting the reports of some of the guys has been very difficult on the ground, so it is too early to give you an indicative run rate at this point in time.

Gaurav Agrawal: Can it be a 500 crore number on a quarterly basis? I just wanted to check that possibility maybe from Q4 or Q1 next year.

V. C. Unnikrishnan: I think that should stabilize by then. It should be okay.

Gaurav Agrawal: Okay. So, 500 crores number is a fair assumption to take, is it?

V. C. Unnikrishnan: Assuming there are no further changes on the TRAI or the government whatever reason.

Gaurav Agrawal: Okay, great. And sir, you are giving your movie production plans. So, I didn't get the full part. You have like 3 movies in your pipeline, right?

S. L. Narayanan: No, one was done during the June quarter, one more in September and another one expected before March. Two more in the pipeline.



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- R. Mahesh Kumar:** We have Kanchana 3 in the most recent quarter which has done reasonably well. It's a low-budget movie, but we made a decent profit. And in line with our strategy, we own the digital rights and the satellite rights, so that future revenue streams are also protected.
- Gaurav Agrawal:** Okay. And sir, because we had some kind of disturbance in our subscription in Q4, so was that a reason for your advertising growth by any stretch?
- S. L. Narayanan:** See, we had issues because that was a very, what should I say, tectonic shift in the way we were going to market with all the distributors, so suddenly, everything changed, and it had to be force fed to a large bunch of distributors. So, that's the reason why we improved that disruption, but things are settling down now. And we have no doubt in our minds that given the positioning of our programming, we will be there with a very significant overall market share.
- Gaurav Agrawal:** Okay. Got it. And sir, these movies which you have produced, you will show them on your TV at some point of time, right?
- R. Mahesh Kumar:** Yes, certainly.
- S. L. Narayanan:** In fact, 2 out of the 3 are already being shown. Like Sarkar and Petta, they have both been premiered; Kanchana 3 is not yet premiered. Kanchana 3 just came, so I think there's still some box office opportunities exist. One of these days, that will also come.
- Moderator:** Thank you. The next question is from the line of Prateek Barsagade from Edelweiss. Please go ahead.
- Prateek Barsagade:** My first question would be on Sun Next. Would it be possible to share some kind of metrics on how the platform is doing? What is the MAU count? And also with Netflix now going on a mobile-only strategy, how do you see it?
- S. L. Narayanan:** We are going to make investments into OTT. We are looking at something like 150 crore outlay for the next 1.5 years. So, we will phase it. Now that it has actually started making money for us because the subscription revenues are now stabilized at a very predictable level, we want to now invest back into the platform and build salient because, so far, we have been using it only as another method of accessing regular content. So, now I think the time has come to put some really peppy, beautiful kind of content which youth can snack on, so that's the plan for the next 18 months. We believe that we will invest about 150 crores on it. And so clearly, the strategy is to position something which is unique to the South Indian audiences, something which is built on the regional flavor. We believe we have a great understanding of what would sell among the youth audiences of the regions where we serve. Plus also a variant of that is reaching out to South Indian diaspora around the world because we are increasingly



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seeing a lot of downloads of Sun Next happening in the rest of the world. So, some of the things that people really like to keep a tab on is what's happening back in the home which they left. So, there would be some programming which will also be oriented to serve that segment as well.

Competition is real. I think all these people will be there. But it is also a fact that when something grows extremely rapidly, it will certainly hit some kind of a speed breaker. So, certainly, we are now seeing Netflix is competing with the traditional broadcasters, who all of them have come out with their own streaming services. Like you must have read that Disney is now launching Disney Plus at a price lower than what Netflix offers. Simultaneously, they pulled out content from Netflix. HBO is now coming out with HBO Max, and they are pulling out Friends out of Netflix.

So, there are a lot of changes happening, and we need to make sure that we remain relevant and competitive in the markets where we are focused on. But we have a very strong balance sheet. Whatever investments are required to protect whatever we have built, rest assured that we will be spending on that.

Prateek Barsagade: Okay, sir. And just any sense on the traction what you are getting in terms of DAU or probably MAU?

S. L. Narayanan: See, we have those numbers. Unfortunately, I don't have it now. We will try and pull it out. And all the data is there, but we have not got it here at this point in time. But let me tell you that our programs are all now available on the 3 major mobile platforms. So, all our live TV is now available on all 3 platforms. In the next few weeks, we will announce the deal with a very large telco, and we will also announce another deal with a major OTT player.

Prateek Barsagade: Okay, sir. Got it. And sir, just one last small thing. I have joined a bit late. Can you just repeat the revenue breakup for this quarter?

V. C. Unnikrishnan: Advertisement is 368 crores. Broadcast is 10 crores. International subscription is 41 crores. Analog pay channel is about 168 crores. DTH is 228 crores. Movie productions is 41 crores. IPL is 244 crores.

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

Alankar Garude: Sir, firstly, I wanted to understand the situation in Tamil Nadu. Last time, you had mentioned about churn happening from Arasu to the private DTH operators and MSOs. So, is it still happening? Can you just elaborate on that, please?



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- R. Mahesh Kumar:** Yes, I think it's still happening. DTH is growing at a very encouraging pace. And we have also witnessed a huge growth in the private MSOs in the marketplace. So, there has been a churn happening from Arasu to the other operators. And also like you must be aware, there is a significant portion of the analog which is still available in the market, so that is also incrementally getting digitized. So, I mean that's what we stated at our comments on that. We hope this will continue unless we are hearing some new strategy of Arasu Cable where they might reduce the price and offer the content and all that. We have to wait and watch.
- Alankar Garude:** Okay. And possible to quantify the numbers in the market overall, the number of subscribers and how many are with Arasu and the breakup between DTH and cable as well?
- S. L. Narayanan:** We don't have these numbers at this point in time, Alankar.
- Alankar Garude:** Okay, sir. I will get it offline. Sir, second question is given the current challenges in the ad market, in hindsight, do you think that our Bangla launch could have been at a more appropriate time?
- S. L. Narayanan:** Anything you can take a call like that, but that is not fair. So, you're saying that because of this downturn we shouldn't have gone there? Is that the question?
- Alankar Garude:** Yes. But sorry, sir. I just basically wanted to check whether the kind of revenue potential which we would have thought when we did this launch, are we trending significantly lower than what our earlier estimates were at the time of...?
- S. L. Narayanan:** See, unfortunately, we didn't anticipate this new tariff order will come and drive a course through everything. So, unfortunately, as we went in there, this whole thing came and threw the entire system into disarray. So, that is also one of the reasons why but anyway, I think it's a step in the right direction because we think that there is a lot of potential there. It is a market where there is not much of TRPs available for trading. And there are 2 well-entrenched competitors, and we thought that this is the kind of play. And I think that our content strategy also has been very well thought of. All those serials have been very well made, strictly made. But it will take some time. I mean, Rome wasn't built in a day. And so we are doing all the right things. And I am sure we will see an uptick pretty soon.
- I don't think we can now sit back and say that we shouldn't have done this. We have actually applied a lot of thought, and we identified that this is the place to go because to go into the regular Hindi market would have called for enormous amounts of capital. And you know our company; we are not a company which will bet the farm. So, even assuming but not admitting at some stage this turns out to be damp squib, it is not something that will wreck the balance sheet of Sun TV. So, it's a very measured step. It gives us a foothold into a new market which is north of India. So, give us some time. I think it's just 5 months since we launched. So, about



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5 months is too short a time to evaluate, so I would request you to give us at least a few more quarters.

Alankar Garude: Right. Sir, I got your point. And just one final thing. Marathi, it's indefinitely postponed, right, definitely not in this time?

S. L. Narayanan: Correct. See, that is because of the kind of situation which now exists. Because we all had our view of the Indian economy booming and firing on all cylinders, so we are trading with caution now. We are unlikely to go and make a big splash at this point in time. So, please wait until you hear from us. For the time being, it's put on hold.

Moderator: Thank you. The next question is from the line of Vishnu K G from JM Financial. Please go ahead.

Vishnu K G: Sir, what will be the approximate budget for the remaining 2 movies that are currently undergoing production?

S. L. Narayanan: Cumulatively, it should be in the range of around max of 150 crores.

Vishnu K G: Okay. Sure, sir. And regarding the digitization, sir, could you quantify how many cables companies are still analog in Tamil Nadu? And can you give us color on who is doing the incremental seeding of the digital STBs?

S. L. Narayanan: What percentage is still analog you are asking?

Vishnu K G: Yes, sir.

S. L. Narayanan: See, in our estimate, it as an upwards of 35% are still analog in this market. And in terms of seeding of STBs, it's being pushed both by the private cable operators and the DTH. Like even our own group company, Sun Direct has been extremely well in Tamil Nadu. Their numbers have grown from an average of 1,000, 2,000 to 5,000, and 6,000 a day.

Vishnu K G: Sir, would it be possible for you to give a split on how many incremental subscribers are going into cable and how many are going into DTH?

S. L. Narayanan: That detailed number is not available with us.

Vishnu K G: Okay. Sure, sir. And if I can squeeze in a last question. So, the ARPU that you received from private cable operators, is it higher than what you received from Arasu?

S. L. Narayanan: ARPU from private cable operators?



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- Vishnu K G:** Yes, sir.
- S. L. Narayanan:** No, I think it's more or less standardized in the new tariff regime, so we have no differentiation in the price. It's all the same.
- Moderator:** Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.
- Yogesh Kirve:** Just continuing with the previous question. So, as of now, apart from the analog subscribers which are there in Tamil Nadu, so all other subscribers, the contents are happening as per the new tariff order including the Arasu?
- S. L. Narayanan:** Even in Tamil Nadu, it's the same. There's no change at Tamil Nadu. The only thing, Tamil Nadu had a bigger volume of people to shift from the analog. So, across this system, it is only based on the new tariff order. The only issue has been that getting the reports from some of the smaller MSOs or the smaller players has been difficult because of their own inability to have the new programs and things like that. So, it's only a transitional phase. So, I think once things are getting streamlined and a good software is available, I think most of them are adapting it also, so between April and maybe last February. And then if we look at June or July, the reporting levels have increased considerably.
- Yogesh Kirve:** So, basically, incremental prices will come from this analog subscriber, right? So, when they move to a digital platform, they will start accruing revenues as per the new tariff order. And we should be indifferent right now whether it stays with the Arasu or it goes to the cable or DTH because ARPU should be same everywhere?
- S. L. Narayanan:** Yes.
- Yogesh Kirve:** Right. And secondly, in Tamil Nadu or in Tamil channel GEC, so can you just update about what is the mix of the commission, what's the sponsored? And is there further migration that we could see from the sponsor to commission model?
- S. L. Narayanan:** The prime time, there are around 4 slots now which are in the private producer slot. The balance of the prime time slots are all commissioned already. More or less, I think this will remain at this level for the time being. And in the non-prime time, we are now moving more towards the commission than the private producer model.
- Yogesh Kirve:** Okay. And sir, finally, on the movie, did we say the movie acquisition budget for this year is 300 to 325 crores?



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- V. C. Unnikrishnan:** Yes, correct. Yogesh, see, this is what we are looking at whatever the movies which are in the pipeline where we have signed agreements and we have a reasonable idea of their date of release in the finance fiscal year. When we have seen in the past that certain big ticket movies do happen in a hurry or I mean they get finished much earlier, so accordingly, the budget will change naturally. So, I think we had told about 350 crores or something last time. So, going by what has moved during the current quarter, not much has moved, so that's why we have picked it down to around 325. As time goes on, the festive season is the maximum time between Q2 and Q3 is when you find the maximum movies getting released, especially there are bigger heroes and big production houses, so we'll be able to have a fair idea of where we stand at that point in time.
- Moderator:** Thank you. The next question is from the line of Sarthik Jain from Bowhead Investment Advisors. Please go ahead.
- Sarthik Jain:** Sir, on this digital revenue, did you have any digital revenues in the Q3, Q4 of last year and Q1 of this year?
- V. C. Unnikrishnan:** No, we had recorded revenues for both the quarters. Like SL has mentioned, we have the platforms of retail cost. So, we do have revenues recognized. You're talking about Sun NXT, right?
- Sarthik Jain:** Yes.
- V. C. Unnikrishnan:** Yes, we had recorded.
- S. L. Narayanan:** See, if I need to explain this, what we first achieved was placement of our streaming channels on these phones because everybody now wants to drive data usage by offering live TV. The second phase, which is a slightly more sophisticated phase, is the placement of Sun NXT, our OTT app, on these phone platforms which would be an additional revenue stream to the minimum guarantee that we have already achieved. And that will hopefully give us a much better penetration into the target market, which I'm told is approaching some 450 million smartphones, of which it is reasonable to expect at least 25% will be in South India.
- Sarthik Jain:** Sir, can you quantify the revenue is what was there in Q1 of this year, I mean, this last quarter which has just gone by and Q4 of last year?
- S. L. Narayanan:** See, we have not shared what money we are making from the telco platforms. And we don't want to give because there's a lot of sensitivity attached to those numbers because we have 3 different contracts, and we certainly don't want too much of information out on the public domain. Suffice it to say that the digital ecosystem is actually rocking now, and we are expecting revenues to go up sometime, as I said earlier in the call, in the next few weeks, we



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will announce 2 major deals: one with a large telco for Sun NXT and another one which is an OTT platform which is being supported by a very large media house. We will position Sun NXT as an add-on there in addition to giving all our channels as live streaming options.

Sarthik Jain: Sir, currently, the digital revenue must be a part of your subscription revenue. Is that assumption right?

S. L. Narayanan: Correct. This is captured under subscription.

Sarthik Jain: Okay. And sir, you have like a lot of cash on your balance sheet. And this is the stock price has not been under pressure. Would you have plans to do some kind of buyback or list the IPL sometime in future now that is also becoming a very big part of your profitability?

S. L. Narayanan: At this point in time, no plan to do a buyback. We will continue to go with this policy of quarterly dividends. And we don't want to comment on IPL at this point in time because listing it is, I'm not sure if that because it only adds to more clerical work. Because today it's all getting consolidated and it's very elegantly sitting inside, unlikely that we would. See, we need to list it if we want to use that as a vehicle to raise money or offer some shares and monetize. Neither the company nor the promoter wants to, at this point in time, sell any stake in the IPL franchise, which will only go from strength to strength because we track the way franchises have evolved over the years in almost all Western countries. They actually multiply exponentially. So, we think it makes sense to keep it inside the company for the time being.

Sarthik Jain: And sir, just the last few question. Sir, since a lot of liquidity issues are happening especially in media and the peers well. So, in your particular Tamil Nadu market, are there competitors which are suffering from the liquidity issue and which may help you to benefit with a market share there?

S. L. Narayanan: No. See, I don't think it is proper for us to comment on any of our competitors on this call, so we'd rather not comment on that.

Sarthik Jain: And sir, just lastly, your market share expectations, what is it you are working towards? What kind of market share is feasible for us to gain? And what is our internal target?

S. L. Narayanan: See, like I said, initially, we have seen 2%-3% growth in the market share which we have gained over the past couple of weeks. So, our endeavor is to further keep growing the market share. And ultimately, it leads to the level where we were a couple of years back. So, I think the desire is to go to 50% and we are working towards it.

Sarthik Jain: What is the cost on the adjusted basis? Like in Q1 FY '19, you paid some 14 crore of bonuses. So, if I adjust for that, the employee cost has only gone up by like 3% or 4% on a Y-o-Y basis.



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- S. L. Narayanan:** Last year, we had some special bonuses for longstanding employees and all that. Even adjusting that you are asking?
- Sarthik Jain:** Trying to increase the market share, doing a lot of new things, taking a lot of new initiatives, so still, we don't see that kind of employees....
- S. L. Narayanan:** I'm not sure if that number is..Anyway, we'll look at it because the 3% looks very low. Sorry, I mean we should be having this data, but we don't. But I don't think that number is right, but in any case, we are actually adding, I mean, we have got a lot of professionals who have domain expertise in terms of fiction, nonfiction. We have got people worked in various markets. So, we are building a very strong content team. So, that's happening parallel in any case.
- Moderator:** Thank you. We'll take the next question from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla:** I just had a follow-up question on the movie release which happened this quarter in April. You mentioned approximately Unni that 30 crore cost has been approximately allocated reflecting in this quarter. So, my question is that movie is yet to premiere on your TV on the broadcasting side, so how much cost of the total budget is already reflecting and how much it could potentially reflect when you premiere it on TV?
- V. C. Unnikrishnan:** The satellite rights allocation is roughly in the range of 5 odd crores.
- Sanjay Chawla:** So, 30 crores out of 35 are reflecting, so roughly 85% is allocated to theatrical.
- V. C. Unnikrishnan:** Yes.
- Sanjay Chawla:** Okay. And sir, I wanted to get this clarity. I didn't pick up this point. You said 150 crore investment is planned for OTT. So, this is over what period and what kind of content do we have in mind?
- S. L. Narayanan:** This is to be done between now and the next financial year. So, we think we will spend about 150 crores over the next 18-19 months. We want to now put some things onto Sun NXT which would appeal to people who are watching content on the go. So, it may not be the kind of big budget stuff which is very expensively produced shows, but it will be more on the short format content which is good to watch on mobile on the go with iPad, that kind of stuff. So, that's what we are planning.
- Sanjay Chawla:** Sir, this is all content investment, and you're not referring to content technology and marketing together?
- S. L. Narayanan:** No. This is all on software, software, yes, good production houses.



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- Sanjay Chawla:** Right. And when it's a short format content, this is basically original content that you are looking at?
- S. L. Narayanan:** Original content, absolutely. This has got nothing to do with plumbing the engineering. It is all for payment to directors, scriptwriters, producers, actors, sets, all put together.
- Sanjay Chawla:** It doesn't include the digital rights for movies that you might acquire that component?
- S. L. Narayanan:** No. It has got nothing to do with that because today, whatever we are buying, we are buying along with satellite rights. We are also buying the digital rights. So, there's nothing of that. This is pure content investments.
- Sanjay Chawla:** So, would it all reflect in the P&L because then I guess your margins could get impacted negatively because I am not sure the revenue level from the OTT is going to exceed that?
- S. L. Narayanan:** Correct. I mean it will not be accretive. So, that's the reason why we waited this long because today, we are at a stage where we are actually making some decent sums of money, and we expect that number to go up. So, we would at best be cash neutral is what I understand.
- R. Mahesh Kumar:** So, that's what I said, like what SL said sometime back, you just wait for some announcements like where we will be announcing some big deals with the telcos and the OTT player. The whole idea is to actually plow back those additional incremental revenues in creating consulting content. So, that I think we can further monetize those. So, I think we will try and neutralize this impact and not really put a big hole to the P&L.
- S. L. Narayanan:** In terms of the timing, it is coinciding with this. But Sanjay, actually, even if margins come down, on the aggregate, if our topline grows and aggregate our bottom-line grows, we shouldn't worry too much about margins because most important today is to get the growth back.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for your closing comments.
- S. L. Narayanan:** So, thanks, everybody. In fact, I may have sounded a bit downbeat as I opened the thing, but we are committed to doing our best to bring the mojo back. So, whatever be the condition of the overall economy, we have to do better than the rest, and we remain committed to that. Thank you.
- V. C. Unnikrishnan:** Thank you.
- R. Mahesh Kumar:** Thank you.



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Moderator:

Thank you. Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.