"Music Broadcast Limited

Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Music Broadcast Q2 FY2021 Earnings Conference Call of Music Broadcast Limited. We have with us today on the call Ms. Apurva Purohit, Director, Music Broadcast Limited; Mr. R.K. Agarwal, Group CFO; Ms. Sangeetha Kabadi and Mr. Jimmy Oza from IR team, along with Jigar Kavaiya from SGA on the call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict. 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 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 Ms. Apurva Purohit. Thank you and over to you Madam!

Apurva Purohit: Thank you. Good afternoon, and thank you, everyone, for joining the earnings conference call for quarter and half year ended September 30, 2020. I sincerely hope that all of you and your loved ones are doing well and staying safe and protected. With the phased unlocking of the economy underway and the efforts being put in by all businesses, big and small, to ramp up the operations, the media industry also witnessed a significant growth in this quarter. The radio industry, which was impacted the maximum during the peak of the lockdown in June quarter, has also bounced back the fastest with a 1.6x sequential growth in terms of advertising volumes in this quarter, largely led by buoyancy and quick recovery in the smaller markets of the country. While this volume growth has not yet fully translated into equivalent revenue increases, since this growth is in smaller markets and current yields are based on the special promotions given during COVID time, the good news is that significant volumes have more certainly come back to the radio industry. With the performance of each passing month and every week better than the previous, we expect the growth momentum to sustain in the coming quarters, supported by the festive season. It is a point of note that the radio industry added more than 2,000 new clients during Q2, with a total of 3,400 clients using this medium to reach their audiences fueled by a consorted effort on part of all the industry players to evangelize the strength of the medium, using various research results, which showcase the medium's credibility and engagement with its listeners across all target segments.

As far as Radio City's performance is concerned, we yet again outperformed the industry in terms of ad volume, which grew at 1.7x in Q2. In times of distress, it is a well documented fact that advertisers and consumers move to tried and tested, familiar and leader brands, which has ensured that Radio City benefited the maximum by getting the highest client count share across all radio players in this quarter, and it consolidated its market share position. The significant highlight, however, in terms of our financial performance has been that we have reported a cash profit in Q2, both due to the revenue increase and a continued effort on cost management, and thus the loss generating phase of MBL is coming to an end. The fact that our cash profit comes at a time when we are just at half our 2019-2020 monthly revenue run rate and also when the big markets with their higher ERs have not yet ramped up in volumes, gives us hope that we will return quickly to your desired margin outcomes once the entire country and especially the metros are fully opened out for business.

In this quarter, we maintained our relentless focus on improving our collections and have been able to reduce our receivables by Rs.28 Crores as compared to March 31, 2020. Out of the total collections in the last 6 months, a substantial amount of Rs.17 Crores was collected from government, which has been, as you know, a toddy sector in payments so far. This has resulted in further buttressing an already strong balance sheet, augmenting our reserves to more than Rs.243 Crores as on September 30, 2020. This strong liquidity position and limited requirement for cash, emboldened us to request our board to approve a bonus issue of non-convertible redeemable preference shares (NCRPS) to be allotted only to non-promoter shareholders in the ratio of 1 NCRPS to 10 equity shares held redeemable after 36 months at Rs.120. The NCRPS are proposed to be listed in BSE and NSE and are subject to requisite regulatory approvals. This bonus issue reaffirms our commitment to our shareholders who have demonstrated their faith in the company and its management, and we hope that we will continue to live up to your expectations.

With this, I open the floor for question and answers.

Moderator: Thank you. Ladies and gentleman we will now begin with the question and answer session. The first question is from the line of Depesh Kashyap from Equirus. Please go ahead.

Depesh Kashyap: An excellent initiative on the bonus preference share part. Firstly, my question is like, if you can please break up the quarterly revenue of Rs.30 Crores into the monthly numbers, so we can understand the trend. And how is October going vis-à-vis last year, please?

Apurva Purohit: So as I have mentioned, every passing month and every week is clearly showing a growth. In fact, as compared to Q2, October itself has shown around a 15% improvement in inventory utilization. So month-on-month, week-on-week, we are seeing an upside.

Sangeetha Kabadi: The break-up of revenue on a monthly basis is as follows Rs.8.5 Crores, Rs.10 Crores and around Rs.12 Crores.

Depesh Kashyap: Okay. Rs.8.5 Crores, Rs.10 Crores and Rs.12 Crores and secondly, last quarter, we talked about the 8% drop in yield, and we were talking about signing long-term contracts on those rates. But this quarter, our yield has like somehow declined by 35%, 40%. So just want to understand, this is just a change in mix, the different market is at different rates, or something else is going on here. And what is the progress on the long-term deals that we were signing?

Apurva Purohit: Okay. So let me just separate out both the things. So one is that clearly, the fact that, currently, while volumes have come back, equivalent revenues have not come back and revenues are lower is a fact of 2 reasons. One is the yield overall has dropped because of the special promotions that we have been giving. In fact, everybody in the industry has been giving. The second thing is the composition of the volume. Most of the volume growth has come back from the smaller markets, which have a lower ER. The bigger markets still are operating at a 30% to 40% lower volume as compared to last year.

Depesh Kashyap: Okay. But like-to-like, like how much the yield has dropped? Is it like around 20% because one of the competitors were saying that their yields have dropped by 20%, 25%?

Apurva Purohit: So I think we should just keep the 2 things separate. There are special promotions that are being run and as a consequence of the promotions, I would say that, overall, the blended average is 30% lower. However, if you separate that out and look at the rates that operate on a stand-alone basis, those rates would be around 5%, 6% lower only. So the moment you pull back the promotion from the market, you will be at lower than last year ER of around 6%, 7%.

Depesh Kashyap: Understood and if you can just give the breakup of the revenue, EBITDA split of the legacy and the Phase 3 stations, that will be very useful.

Sangeetha Kabadi: The Phase 3 stations for the quarter contribute to around 12%.

Depesh Kashyap: Revenue?

Sangeetha Kabadi: Yes.

Depesh Kashyap: Okay and EBITDA loss will be?

Jimmy Oza: The overall EBITDA loss is at Rs.3 Crores so 12% of Rs.3 Crores also goes to the Phase 3 stations.

Depesh Kashyap: Okay. It is equally split and what is the respective utilization levels, what is the volume utilization levels that you are working at?

Apurva Purohit: So in the smaller markets, as we have said, the volume utilization is almost at the same levels as last year. So there is practically no degrowth. In the bigger markets, there is a volume drop of 30%. So the utilizations are around 55% for the smaller markets and around 30%, 35% for the bigger markets.

Depesh Kashyap: Understood. And lastly, madam, any update on the license fees payment part? Is the deferral period over now? How are the negotiation with the government going on?

Apurva Purohit: So deferred period is over. We have paid the license fee under protest. We are still lobbying with the government because as an industry, we believe that they should share the pain and we think that paying the fixed license fee in a sense is a bit unfair and tough on the radio industry.

Depesh Kashyap: So you have paid the license fee for the entire half year or only for the Q2?

Apurva Purohit: We have paid for the entire half year. Plus we have paid the quarter 3 in advance.

Jimmy Oza: It will reflect in the Q3 numbers. So whatever balance sheet number we are showing you does not include that. We have paid just now in October.

Depesh Kashyap: Okay. You have paid after the end of the books. Thank you and all the best.

Moderator: Thank you. We will move on to the next question. That is from the line of Jayesh Shah from OHM Portfolio.

Jayesh Shah: Congratulations for good results and a very generous distribution to the minority. You talked about this long-term deal of Rs.65 Crores in the last quarter and you said it would be kind of Rs.20 Crores per quarter. So if I look at this revenue for this quarter of around Rs.30 Crores, then ex this long-term deal we do not seem to have done well. Or am I missing something?

Apurva Purohit: You are right in the sense that we signed up long-term deals of around Rs.65 Crores. We were expecting that they would get equally distributed or at least get distributed in 40%, 45% in H1 and the balance in H2, which is in a normal year what happens. However, this year, this time, naturally, because of these unprecedented times, only Rs.15 Crores of the annual deals have got used in H1.

Jayesh Shah: I see so these are effectively deferred. They are not canceled or whatever, right?

Apurva Purohit: No. In fact, we are adding to that. So from Rs.65 Crores, they moved up by another Rs.10 - Rs.15 Crores and let us hope that the consumption starts happening.

Jayesh Shah: Okay. And how is the festival season panning out? Because the whole impact we are going to see now in the third quarter. So how is the outlook?

Apurva Purohit: Clearly, we are seeing from September itself, as I explained by splitting up the revenue figures over July, August, and September, September, clearly, we have shown a growth in utilization in volumes coming back for the industry and both big and small clients, local and corporate clients coming back to use the medium. So that is clearly one significant step. We are seeing month-on-month, week on week, there have been an improvement. The first 20 days of October also clearly are showing an improvement over September, which was already an improved month. So this really gives us a positive indication that things are clearly improving. If things sustain, Jayesh, at the same pace, as there is no lockdown situation or something unexpected happening, we are clearly seeing that Q3 should show an improvement of 30%, 40% sequentially over Q2. And the good news in October is that the bigger markets have finally started showing some openings and volume shares are also started coming from big markets and now it is really about keeping our fingers crossed.

Jayesh Shah: Right so more long-term deals will be offering. And secondly, will promotions continue in this peak quarter or has promotions ended?

Apurva Purohit: We had specifically, given these promotions for the difficult months. While we had started giving out the promotions in April, May, June, unfortunately, because of that severe lockdown, April, May, June, nobody took those promotions at all. Nobody was advertising. The good part, at least, is in that Q2, they started availing of the promotions, which is why you see these volumes come back, right. So one part is that the promotions are being used extensively, which is a good sign for all of us. As we move into the festive season, we will start withdrawing the promotions because there is limited inventory after all. So we will start withdrawing the promotions. We have already started. So I would say that the impact of the promotions on the yield was to the extent of 50% in July and August. It fell to 40% in September, and it has fallen to 30% in October. So clearly we are withdrawing promotions.

But again, the caveat only here is that nothing extraordinary should happen in the environment.

Jayesh Shah: Yes. So otherwise, broadly, one should see improvement in volumes and yield and overall revenues in those revenues in the third quarter?

Apurva Purohit: Yes. So I would say improvement in volumes has already happened in all the smaller markets. They are at practically the same level of volumes as last year. Now we should expect improvement in volumes in the big markets. As a consequence, the yields will improve and a withdrawing of the promotional schemes slowly, depending on the supply-demand equation, both they should result in an increase in revenue and expansion of the margin straightaway.

Jayesh Shah: Right and to some extent, would cost base start moving up now? Or can we assume this current cost base stays at least for the next couple of quarters?

Apurva Purohit: On the fixed cost basis, clearly, this will be as it is. There is no increase that is going to happen. Variable cost will move in line with the revenues going up. But as I have mentioned earlier also, on an annualized basis, we believe that we would have saved cost of around Rs.40 Crores, Rs.45 Crores, out of which Rs.15 Crores, Jayesh, is a permanent cost saving. I think that is how we should look at when we start planning for next year, that there is Rs.15 Crores advantage that is coming through all the measures that we have taken currently

Jayesh Shah: And one final telescopic question that has COVID brought in any new opportunities, which it has for digital advertising and digitization and everything? Or has COVID helped us only to the extent of the cost-cutting that we have managed to do?

Apurva Purohit: I think I would say that COVID has helped us in 3 manners. One is, of course, the cost cutting. And we should not, I mean, minimize the extent of cost cutting. I am talking about Rs.15 Crores of permanent cost cutting so I think that is one part we should make note of. As far as revenue opportunities are concerned, two good things that happened. One is we were pushed to explore more and more clients and as you can see, nearly 4,000 clients are getting added to the industry, of which Radio City got the highest share. That itself is a significant number. Example, Radio City Bazaar, where we started working with the micro entrepreneurs that added nearly 400 new clients to Radio City, and nobody else has tried that particular scheme. It is only exclusive to Radio City, so opening out of micro entrepreneurs and since you have asked a telescopic question, the telescopic answer is that we believe that we are, therefore, sharing in the journey of building entrepreneurs through what we are doing on radio because radio as a medium is the cheapest port of call for them to expand their business. So I think that is a great opportunity that is of benefit not only to us but also to the entrepreneur. And I think the third thing on digital increasing alliances we have done a very big alliance with Spotify and we have started exploring joint sales with them, so can the digital version of Radio City on Spotify and the terrestrial version be sold as packaged deals. So these are certain things that we are currently exploring. So I think these are three big opportunities.

Jayesh Shah: Very good. Thank you very much and best of luck.

Moderator: Thank you. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: First of all, madam, congratulations for the generosity of preference bonus share. We are all in the same storm, but different boat. You have actually send a precedent of sharing wealth with the minority, so heartiest congratulations for that, first of all and second, radio as a medium for advertising, how things are shaping up from the aspect of large spenders? This is my first question.

Apurva Purohit: Okay. So firstly, thank you for your compliments. Jagran, as you know, has always been rewarding shareholders and as a subsidiary of Jagran, I think it is our duty to carry forward that tradition. So thank you so much. The second point on which big clients and what is the status of clients, the fact remains that till Q2, neither the big markets nor the big clients actually came back to using media at all. So corporate clients and utilization of big metros because of the fact that all the big metros were closed, and that is where most of the big clients reside also, they have their offices also and the media agencies are also there. So psychologically and otherwise also, there was this impact of the lockdown translated into them not advertising at all across media. It is only with IPL that big clients have come back to media, and we will see the impact of it across all, whether it is television, print or radio, in Q3.

Manoj Dua: Okay. So my second question is, how much time it will take for this preference share bonus to be recorded, to come and all this thing any idea how much time all these regulatory things takes?

Jimmy Oza: I think it will at least take till March, for sure, maybe a couple of month here and there.

Manoj Dua: Okay and assuming what I am reading from media companies, they are assuming that 80% to 90% of normalcy is expected in this Q3 to pre-COVID level and as we have cut down costs in a very effective way, so by thinking that we could post more profit than last year?

Apurva Purohit: No. 70% to 80% recovery when all media players are saying, they are all talking about 70% to 80% of volumes. In fact, 90% recovery as far as volumes are concerned. And that is something that we are also saying. However, I think everybody is very aware of the situation that the 70%, 80% of volume recovery is going to translate back only into 50%, 60% revenue recovery. Now that is one set of figures. The other set of figures we have to look at the cost efficiencies that we have built in and brought down the cost significantly by around 25% overall. As a consequence of A plus B coming together, clearly, as we said, in Q2, we have reached cash profit situation and the story of our losses, which actually remained only to the extent of the first 3, 4 months, is now done and dusted with. From H2 onwards, clearly, we are talking about moving to generating positive EBITDA and profit. So this is the situation.

Manoj Dua: Okay thank you madam once again congratulations for this bonus share and I hope it sets precedent for peer companies and other companies to do that also. Thank you Madam.

Moderator: Thank you. We will move on to the next question. That is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Congratulations, Apurva, on delivering cash profit despite tough conditions and especially on the government collections as well as the bonus preference shares. So first question is you are right that I think the volume degrowth has kind of come down for the industry but there is a considerable price erosion that we have seen, which is reflected in the revenue numbers. So do you expect that by Q4, we should be broadly overall in terms of revenues we should be able to normalize? Or are you seeing some sustainable erosion on the revenue base because of the COVID situation?

Apurva Purohit: As I explained, the drop in yields in ER is a function of two things. One is the promo offers and the supply-demand mismatch that was operating in these tough months, and the second thing is no volumes or very reduced volumes in the big metros. Now the correction of yields and ER will certainly happen as volumes starts coming back to the big metros, and we are already seeing it in the first fortnight of October. So to that extent, the correction will happen. The pulling back of promotions, we have already started, but that is very dependent on the supply and demand story that pans out, not only in the festive, but after the festive season. So if this trajectory of volumes coming back continues to sustain, you will see the yields go back in the last quarter to near normalcy, but it really depends on the volume situation, and we have no way of judging that as of now.

Sarvesh Gupta: Okay and then what is happening in the environment? So this has obviously been a very tough situation for the radio industry. Obviously, we come with a very strong financial background, because of Jagran and as well as our own stand-alone balance sheet. But have you seen people exiting the business? So is there opportunity to gain market share out of people who are exiting? And have you also explored anything on the inorganic side?

Apurva Purohit: As of now, we have not seen any exits happening. We do not know about the future. But as of now, there is nobody who has exited this particular business.

Sarvesh Gupta: So does it mean that everybody would be able to sustain through these crisis? And hence, the supply in the market would not reduce, which will also have an impact on our yields?

Apurva Purohit: As you are aware, the number of players in the radio industry are fairly limited, and the barriers to entry are significantly high and when the barriers to entry are high, barriers to exit are also significantly high, I mean, in the sense that we have all paid our license fee, et cetera, for a long period of time. The bigger players clearly will come back to profit fast. You are already seeing that happen to Radio City and many of the regional players who have affiliation with print majors, they are part of a multimedia conglomerate, have the support of their parent companies to sustain and finally, I think, I am clearly seeing the radio industry bounce back faster and therefore, that should impact positively all the players.

Sarvesh Gupta: Understood. Finally, on this preference share, so are there any other considerations apart from giving cash out to the minority shareholders. Any other consideration regulatory or any other wise, which is leading to this step and what will be the record date, I understand that you said March will be the listing date, maybe for the preference share, but what are the steps and the year time lines for this?

Jimmy Oza: This requires BSE and the SEBI's clearances and thereafter, it will go to NCLT for its approval. That is why it is going to take that time. Once NCLT gives us the clearance then the record date will come in picture and as such, there are no other constraints, except the approval which we need to take.

Sarvesh Gupta: Okay. But for this decision, per se, are there any other considerations apart from the point of rewarding the minority shareholders?

Jimmy Oza: Consideration means what?

Sarvesh Gupta: I mean, are there any other factors which led to this decision of preference share?

Jimmy Oza: Okay. So, see, as you know, Jagran is one of the player who actually keeps on rewarding shareholders and there is history to prove that. Given the COVID scenario, right now company does not wanted to part off with its cash. So hence, they are issuing a preference share, point #1. Point #2, the moment these preference shares gets approved and listed into stock exchange, the shareholders can take away cash as and when they want. So that is part #2. Part #3 is when we Jagran acquired Radio City, the acquisition cost was not too high. It was at a very attractive valuation. When the IPO came in, IPO was at around Rs.2000 Crores post-IPO money valuation. The minority shareholders who had shown a patience to stick around with MBL for this longer run were not been rewarded. However, we had issued bonus. We had issued buyback. We had done splits which, on year-on-year basis, had helped the minority shareholders, but something bigger, which was still awaiting, which was to be given back to the shareholders and hence, this preference shares came into picture. Lastly, these preference shares, which we are issuing, is win-win situation, not only for the minority shareholders, but also for Jagran as a whole, which is going to help bring better value to MBL and in turn to JPL as a group. That is how the consideration we look at.

Apurva Purohit: I think what Jimmy is trying to say is that we looked at every aspect. We looked at all our stakeholders. We looked at the most efficient way of rewarding. But finally, at the end of the day, to answer your question in one simple line, our key objective was to create value for our minority shareholders who have demonstrated faith and patience in the management and in the business.

Sarvesh Gupta: That is very helpful and thanks a lot for answering all the questions.

Moderator: Thank you. We will move on to the next question from the line of Jinesh Joshi from Prabhudas Lilladher.

Jinesh Joshi: I think in the presentation we have mentioned that we have created certain business opportunities that accounted for 25% of the quarter's numbers. So can you highlight what sort of opportunities are these and how sustainable is this venture?

Apurva Purohit: I already mentioned one of them, which was really the Radio City Bazaar, where we have actually created special slots on all our radio stations for micro entrepreneurs, who can come and talk about their businesses, and create a customer base. This has been extremely successful, 392 micro entrepreneurs coming on to using the platform, and all of them are first-time advertisers, first-time advertisers across any medium. So I think that is one opportunity that we have created. Then we did a lot of special campaigns and special schemes where there was Corona campaigns, people who wanted to talk about the virus and talk about their specific products. For them, we created special slots. With the government, and some municipal corporates, we worked very closely and towards the fag end of the quarter, there are some IPL revenues that have started coming in. All this put together is what we are talking about the special opportunities that got created, which gave us this number.

Jinesh Joshi: Okay. One last question from my side. This receivable of Rs.77 Crores that we have on the balance sheet, can you tell me how much of it pertains to the government?

Jimmy Oza: Government is Rs.35 Crores.

Jinesh Joshi: Okay thank you so much.

Moderator: Thank you. The next question is from the line of Hemant Sreeraman from Bearing Advisors. Please go ahead.

Hemant Sreeraman: Nice to see the trajectory coming out of COVID. I wish you continued success. A couple of questions from my side. Could you please elaborate on the relationship with Spotify? Specifically, what does each party hope to achieve from the other side?

Apurva Purohit: There are two deals with Spotify meaning two relationships. One is where they have taken content from us, and they have started using it, so some properties and programs and PPS that we have been creating over this last several years like Babber Sher, etc., is something that we have given to them. So our IP resides on Spotify platform for which there is a content syndication deal. The other is a partnership that we have just started, where we are saying that jointly we will sell the Spotify inventory and the Radio City inventory together, so that an advertiser gets both a digital play and a terrestrial play.

Hemant Sreeraman: Got it. So the value proposition for an advertiser would be one to many platform, sort of, an outreach versus going to MBL and Spotify individually?

Apurva Purohit: Absolutely.

Hemant Sreeraman: Now that is very interesting, Apurva. At some level, I mean, if I just take a step back, you had a very good management discussion and analysis section in your annual report where you have outlined the industry structure. And specifically, the digital advertising, it has clearly has panned out in terms of its pace of growth. And it seems likely that this trend is going to continue over the next 3 to 5 years. Given that Spotify and Music Broadcast are both attention aggregation platform for lack of a better term you are both wanting for the same listener attention and by extension advertising wallet share over a longer time. I am wondering if there is a risk of Spotify capturing the bulk of the value, especially if most of your customer attention is being routed through Spotify as a gatekeeper?

Apurva Purohit: Actually, I disagree, and that has been a stated position that I have been making for a very long time that when digital vertical, whether it is in print or on audio or on television, starts growing, it will expand the pie. And that is exactly what is happened with the consumer who was typically spending 3.5 hours a day across media and now he is spending around 5.5, 6 hours a day. And the additional two hours is going to the digital vertical across audio, video, etc. That is point one. The second point I have always made is that the transfer from one medium to another happens when the content is the same and we know and we have witnessed this our consumers have witnessed this that the radio content is not transferable to Spotify or Gaana or Apple Music, etc. All those have only music, which are playlists that are given to them. The radio content is an aggregate of music, plus RJs, plus local information, plus credible news and that mix no other digital platform is yet able to give.

Hemant Shriraman: Got it. Very heartening to hear that and one last question and then I will fall back. What keeps you awake at night in terms of if you look at the competitive intensity that you are likely to contract over a medium term? What is it that scares you the most?

Apurva Purohit: The only thing that keeps me awake at night is when I believe I do not have a strategic solution for it, right? So I have strategic solutions, tactical solutions for competitive intensity, digital, etc., and very well able to handle anything else because I have strategic solutions for all of them. The only place where I do not have a strategic solution is if the economy again goes into a lockdown. So that is what keeps me awake.

Hemant Shriraman: Thank you very much Apurva. I really appreciate your comments, very, very thoughtful all the best for you in the future.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Thank you for this opportunity. My first question is when you look at the rural, the non-metros and metro market, in terms of you have spoken about volumes coming back to near normal in rural or for non-metros. What is the kind of advertiser profile which you see between these two and going ahead, do you see metros catching up or you think the non-metros should continue their traction better than metro?

Apurva Purohit: The fact is that the smaller markets and the smaller metros were least impacted by the crisis and their bounce back has been far faster and very, very heartening to observe, not only from a short-term perspective, but even from a long-term perspective, because more for India, the more there are markets across the length and width of the country, the better it is rather than being hugely dependent only on two, three metros. So from that angle, I think it is a very heartening sign. The second point is that the people who have come back in the smaller markets and the smaller towns are clearly the local advertisers and we have seen that shift happen where nearly 60% of advertising is now coming from local advertisers and there, it is all types. It is equally real estate. It is equally retail. It is equally the local dealers, equally the local pharmaceutical brands, local FMCG brands, etc. So that is the mix that has come back and that mix will continue to grow for times to come. The big metros got a far bigger shock and they are taking therefore, a far longer time to recover, but the recovery is happening. In the short term, of course, we need the big metros to ramp up fast because they are the ones who will deliver the higher ERs and the higher value growth and we are seeing that the green shoots happening from September end and October.

Anuj Sharma: Okay. My second question is, you have addressed this partly, but you were seeing traction due to festives, but any sense you get post the festive how things are, the deals, what is the pipeline you see post the festives for both the markets?

Apurva Purohit: I think today, the situation is as such that the confidence amongst advertisers to do long-term campaigns is still a bit shaky. So clearly, across the board, across media, we are seeing shorter campaigns being committed to. So we are seeing, we have visibility for the next 45 days until the festival season. After that, the hope and expectation is that basis advertising if sales move up and sentiment improves in this 45 days that will again give confidence to the advertisers to continue and we also recognize and they too recognize that they have to catch up. Nobody has been able to deliver the sales in the first half, right, so they have to play catch up and in which case, they have to push their inventory through by increased advertising.

Anuj Sharma: All right, also, on the music apps, the experience is now not as seamless experience because there are ads being inserted as they gain traction. While every channel station would have their own strategy, Radio City as a broad, are you repositioning or changing some position given that you now better know how the audience is listening to this medium versus radio? Any broad changes in your thought process or positioning?

Apurva Purohit: The music apps now have been there for five, six years, right and I think from 2013 onwards, I have been hearing that music apps will come and they will take over the listenership and they will be significant, but that is not happened, right, in the last seven years, if it has not happened, there is nothing fundamentally that has changed in this year that music apps will suddenly take over. My hypothesis still remains and it is a fact and it is reproven by the researches we have done even during this crisis that people are looking at the audio medium for two reasons. One is when they want only music, which is when they go to apps. The larger reason is when they want local information, credible information and RJ, who they believe in and trust in and this trust factor and credibility factor actually increased significantly for radio during these time, where they say that for my city, for my locality, the most accurate information I can get from my RJ. For that reason, people are coming to radio and keep coming back. So I do not need to change my positioning or my content because of apps because they are fulfilling a very, very niche need. Yes, we improve our content all the time. We improve our RJs and delivery all the time and this time, we went even more hyperlocal. During this crisis, we spent a lot of effort in revamping our programming so that it would go even more local, so within Mumbai to various localities, so that people felt that connection, which they were missing out because of the lockdown through the radio.

Anuj Sharma: Thank you so much and my last question is to Agarwal ji. Agarwal ji, will there be any requirement for minority shareholders of Jagran to approve this? Because one way to look at it is they might feel it is nothing for them. So any approval required from their side? Thank you.

R K Agarwal: First of all, no approval is required from their side number one. Number two, I am pretty sure, even if the approval was required, nobody would have minded granting this approval. Because if anybody loses from this proposal then one would object, they have not lost anything. Number one, what we have to understand is this distribution, which is happening to the minority shareholders of MBL. This is the set of the shareholders who have got nothing from the company virtually since 2017, when the company got listed and it is not because management did not want to. It is not because company performed worse than what was expected. It is because of turn of events. It has started all with demonetization and economy went on slipping and slipping and slipping. There, neither management was at fault, nor shareholders are at fault. So as responsible management, we have to keep thinking how do we help them also to recover money or to get rewarded, so from that thought it came. As far as Jagran shareholders are concerned, they have already been distributed like nearly Rs.2000 Crores over a period of 10 to 12 years, they will continue to be rewarded as it is and on top of it why MBL IPO achieved that kind of success, which it achieved, it was

41x worth of times. It is because group lived to its reputation of being investor-friendly, which will come handy in future also, never know when Jagran or MBL needs funds for inorganic growth, organic growth. This is something which has been Jagran's strength always. And on the top of it, of course, there is a rub off effect of the valuation increase in MBL shares.

Anuj Sharma: That is very clear. Thank you so much.

Moderator: Thank you. We will move on to the next question that is from the line of Abhay Moghe from Bajaj Allianz Life Insurance. Please go ahead.

Abhay Moghe: Good afternoon everybody. I just want to understand the specific cash payments that will happen for NCRPS. After the record date, whomsoever the eligible shareholders would be in the ratio of 10 if suppose somebody is holding 10 shares of MBL he will be credited with a one share of NCRPS and suppose we hold till the end of the 36 months, at that time, company will pay him Rs.120, that is how it goes and no Rs.100 would be paid initially by the shareholder of the MBL, right? This is how it works?

Jimmy Oza: Correct. So it is a bonus, so nothing is going to come out from the shareholder to the company. Even the cash outflow for the company will happen after three years that Rs.120 per preference share.

Abhay Moghe: So around Rs.108 Crores…

Jimmy Oza: Around Rs.106 Crores

Abhay Moghe: Yes, so that will be paid after three years by the company...

Jimmy Oza: Yes. On expiry of the 36 months.

Abhay Moghe: And would you know how the tax treatment would be at the investor level by any chance?

Jimmy Oza: Yes. So it would be a...

R K Agarwal: Jimmy, let me answer.

Jimmy Oza: Yes.

R K Agarwal: Of course, you would like to take your own advice in the matter. This was also an aspect, which was, in fact, thought about by us pretty much in detail and whatever emerges out of this consideration, this is one of the most effective way, most tax-efficient way to distribute.

Abhay Moghe: Thanks a lot. That is it from my side.

Moderator: Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: Good evening. This is Ayaz Motiwala from Nivalis Partners. I wish you good afternoon and my two questions are. One is the FM case, which has been going on in terms of 2% share that you have on, what should you say on a la carte basis, if you could throw some light on that situation for the providers of content which are there to you and then the second question is on digital radio, which I will expand once I have an answer for this one, please.

R K Agarwal: Ayaz you are the same Ayaz I know.

Ayaz Motiwala: Yes sir.

R K Agarwal: Where are you in Singapore only.

Ayaz Motiwala: I have been in Hong Kong for now.

R K Agarwal: Very nice connecting with you after a long, long time.

Ayaj Motiwala: That is why I wish to you formally also and I hope to connect with you offline. So Apurva and team, if you can share your thoughts on this FM case, which is my question I think I had asked in the previous quarter as well because it has been sort of hanging on a bit in terms of potential impact on you in terms of content cost?

Apurva Purohit: It is not hanging on. We had the licenses till September 30. They were a 10-year license period, which got over September 30, so the case came up for discussion only after that and it is currently at IPAB. The first set of arguments have already been made by both the radio industry and by the music industry and from November 3, the hearings and the next set starts and there is likely to be a resolution immediately post that.

Ayaj Motiwala: And sort of we are speculating in terms of what the size, etc. There is obviously a COVID situation, which is going on. Do you think you have an interim solution or is this going to be another 10 years sort of committed licensing from the content providers?

Apurva Purohit: I do not think there will be an interim solution because when the earlier case happened, that took 10 years, so arguments that was taken at that period remain largely unchanged, right. It is that revenue sharing is the most equitable way of sharing any upside. That it is an international norm that is in practice across the world as far as music royalties are concerned, so all the arguments remain unchanged. These are the same arguments that are being made by us and this time, we also have data to prove the upside the music industry has got as a result of sharing in the revenues with us rather than a fixed fee. So we do not think there will be an interim judgment. It will be a final outcome only.

Ayaz Motiwala: And you talked about and I did not catch that you said you have started paying from October some due amount. That is the government sort of fees in protest. Is that a separate one?

Apurva Purohit: That is a separate one. So what you have asked and what I have just answered with respect to the music industry and the music royalties, the license fee that we are talking about is the license fee that we are supposed to give to the government for use of the spectrum. On that, that is the one where we were lobbying and negotiating with the government because they have a fixed fees structure and a revenue share and the higher of the two apply. And obviously, in this first two quarters, it was a higher of the two, so that is the one where we have been requesting them to convert it to a revenue share model.

Ayaz Motiwala: Got it. Okay, excellent. Now the other observation, which has been there and you made your point we have heard it in other forum as well in terms of the digital impact and you said we have been talking about digital services taking away share from traditional channels such as FM, but not really happened. My question in that whole sort of fact would be that one is while they may be free right now, they want to drive it towards typically on a subscription basis, these playlist services such as Spotify and others and clearly coming from the house of Jagran and media, you are the traditional model where the listenership is free and you monetize it through advertising as the traditional radio/FM radio model. But overall, it sounds like whether it is advertising or subscription, it sounds like content is getting paid for and there is an overall improvement. So would you sort of agree with that in terms of the overall overarching thing for the radio industry as being one of the biggest players in this industry that consumers are now paying up either through their time in monetization on advertising or through monthly Rs.50 or whatever the subscription fees are?

Apurva Purohit: So let me clarify first...

Ayaz Motiwala: Just for an improvement of the radio industry overall.

Apurva Purohit: Yes. So let me clarify first from the house of Jagran or otherwise, I think our belief very clearly has been that, yes, consumers must pay for content. So whether it is in the print part, where year-on-year, Jagran has been raising its cover price or whether it is in the specific publications like Gujarati Midday, Inquilab and Midday, where today, both Inquilab and Gujarati Midday over the last three years we have taken the cover price increase, so that today three of these publications actually make money on subscription. So our belief that consumers should pay for content and it is our job to provide high-quality content is a group-wide philosophy. That is one part. As far as radio is concerned by the way the spectrum has been awarded to us by the government, the premise of giving us that spectrum is that it is a free-to-air spectrum, so we cannot charge subscription on this.

Ayaz Motiwala: I understand that. I was trying to link on the access, but I think that clarifies as well. So my last question now. Again sort of linking it to the digital and the evolution, FM radio is a traditional media. It has been in operation from I would want to just use a number, 50 years or 100 years and then this digital access has come about, again, through sort of radio waves, through telephony or broadband or whatever you call it. Now in countries such as Indonesia, we observe that the traditional FM companies have also started doing what is called a digital radio. We partly have talked about it. But my question is on two points. One is the spectrum or the license fees that you share with the government on minimum guarantee or percentage of revenue. Is there a possibility that you can have an emergence of national channels, which are digital only, which are kind of radio like but they are played out through digital apps essentially?

Apurva Purohit: I do not know whether you are...

Ayaz Motiwala: Have you observed such a thing in a regional basis? Like I know in Indonesia, the FM companies are trying to graduate towards that. Maybe they have only 20 cities and we have many more in India, but they want to sort of take the bull by the horn and compete with the Spotify's and the Gaana's and the Saavn's equivalent of the world there?

Apurva Purohit: Sure. So I do not know whether you are aware, but as early as 2008, 2009, we and a few of the other radio players had already started digital radio stations. In fact, at its peak, Radio City was running 55 digital radio stations, in different genres from spiritual to electronic to rock and independent music, so all of us have moved to digital platforms and to providing digital radio solutions, which are niche in nature. The only difference is that these set of stations remain niche because we are not able to play popular music, which is, in India, Bollywood music or film music. The reason why we are not able to play Bollywood or film music is that the cost of digital royalties is extraordinarily high. And in fact, all the apps, the Gaana's and Saavn's are not able to break even, even today, after seven, eight years of existence, primarily because they pay such high digital royalty costs. That is the roadblock to anybody transitioning to digital platform. The second thing is the digital or dual-listening segment is still very, very limited, largely because even, as you said, people will listen either through an app or through the net or through telephony, even now except iPhone, most of the phones have an inbuilt FM transmitter. So most of the people are listening to the normal terrestrial FM through their phones and that is, in a sense, a little thing that is different and structurally different in India compared to the rest of the world.

Ayaz Motiwala: This is very helpful, Apurva. I am going to take a liberty of one question just as an answer of an argument on the earlier point. So you said digital royalties are very expensive. Players are not breaking even after such a long time and we know the 2% payout FM does to the content providers. So would you say that there will be a level playing field after this case is heard out or is this a fair way the industry is configured between higher cost to digital in terms of royalties versus the traditional FM players or because the government has a pool of a few thousand Crores of license revenues, they continue to have it that way?

Apurva Purohit: Right now, there is no place where the digital audio players and the terrestrial radio players are intertwining. So that is running on a parallel track, and this is on a parallel track. This conversation, this discussion at IPAB is happening only with respect to terrestrial and I think that is how it will continue.

Ayaz Motiwala: Okay.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Good afternoon. Apurva, a couple of questions. You did mention that the recovery has been very good sequentially and it is visible also in the results and also Q3 would also be as you mentioned, would be around 40% plus kind of a growth sequentially. So with this run rate and whatever visibility you have, at what kind of monthly run rate you feel you people could exit FY2021, just to get a flavor?

Apurva Purohit: Right now, we are really focused on the next quarter and I would say that if we are able to grow by 30%, 40%, we should be very happy. After that, there are too many imponderables right now to be able to judge what will happen in Q4. Our expectation, our hope and the current run rate seems to suggest that sequentially this in Q2 if we grew at around 30%, 40%, in Q3 we are growing at 30%, 40% sequentially, we hope and assume that this trajectory will still be maintained.

Ankit Babel: And when you expect your yields to be back to pre-COVID levels, once you achieve this? I mean, any time line for that?

Apurva Purohit: No. There are no time lines. I again repeat that we are seeing the recovery happening, but the recovery is very recent and we have visibility till the festive season and our focus currently is on Q3. Our focus is on trying to get the volumes to come back into the big markets. Our focus is on trying to give as many innovative solutions and encouragements, I would say to advertisers to start advertising in the big cities and that is the only...

Ankit Babel: So actually my purpose for asking this question was to understand that for you, FY2019 was a peak year in terms of revenue and profitability. So just wanted to understand by when can you reach to that level? That is the reason I was asking this question.

R K Agarwal: The reason is, regardless of whatever we indicate, that is just a guesswork, which you can make as good as we can. The reason is we are only a subset of the overall economy. When about economy, sometimes people, these knowledgeable people predict 9% growth, sometimes they say 10.5% growth, sometimes they say 8% growth and these estimates are changing almost every month. What does any subset say about it?

Ankit Babel: So in that case, we can only assume that this year whatever the government is saying, will fall by 8% to 10% and next year it would be a recovery year, so we can be back to the pre-COVID levels of GDP. So in that scenario, if that happens now if that does not happen, we understand that.

R K Agarwal: If that happens, if I assume that 10.5% as degrowth this year is right and next year they will grow by 10%, I would also say we will grow by 12%.

Ankit Babel: Okay. No, but the point is that degrowth in your company is far higher than degrowth in GDP, so the opposite should also be true that...

R K Agarwal: What you say is perfectively all right. I mean like the whole economy, when whole economy is going to improve, right, there cannot be a case where other components of economy do not improve and in that proportion only because overall economy's growth percentage comes from these subsets only, from these components only. So I am just giving you an example. They are also saying that economy next year will grow by 20% to 22%. So of course, what I tried to indicate was if overall economy grows by 10%, we will grow by 12% to tell you we will perform better than economy. That is it. And to what extent we will perform better, it will be a function of so many things, which you cannot predict sitting today. But I can assure as our past track record has shown, we do better than the industry and we do in line with the economy.

Ankit Babel: Okay. And any working capital...

R K Agarwal: If that is growing, we will also grow.

Ankit Babel: I understand. Okay and once growth comes back and sooner or later, whenever you reach to your pre-COVID levels, do you feel that there could be some pressure on your working capital side, again, because of higher government receivables and the current cash balance might actually start falling?

R K Agarwal: I very much expect that. We would need more working capital, at least for two, three years, in case we touch that level, right, than what we needed earlier. The payment cycles will be delayed. If earlier we were expecting payments to come back in six months' time, now, of course, for next two, three years, 6 months will become one year and as people say, probably this is what is going to be the new normal for the purpose of media entertainment industry.

Ankit Babel: But this increase in working capital, you expect only from the government side and not from the...

R K Agarwal: No. In general, it would be like that. In case of government, it would be worse than what it is going to be for non-government advertisers, but then that is not the concern, right? I mean, like even though our working capital increases, requirement increases, how much it impacts us. Currently, we do not have any working capital borrowing. In that case, we will have working capital borrowing, if required, if that is making more sense. Otherwise, the company at that level will be generating Rs.20 Crores more profit or more cash than what it was generating earlier. So if earlier, it was generating Rs.85 Crores, now at that level only it will generate Rs.105 Crores because of the cost efficiencies, which we have brought in. So out of that Rs.105 Crores, if I need to invest another Rs.30 Crores, Rs.40 Crores in working capital, we would. It is not something which is that much concerning. It is very much theoretical question for industry like radio or industry like media.

Ankit Babel: Okay. So my concern was just that the increase in working capital should not be more than your cash flows. As you mentioned, that out of Rs.100 Crores...

R K Agarwal: It cannot be.

Ankit Babel: If you invest Rs.40 Crores, it is fine. At least you will maintain your cash balance. It would not fall then.

R K Agarwal: When everybody is starving for the liquidity, we are sitting, MBL is also sitting with a liquidity of nearly Rs.300 Crores, Rs.245 Crores, we have hard cash nearly Rs.50 Crores, Rs.60 Crores limit we have from bank, which we have not utilized. So in the worse case scenario also when we maintain Rs.300 Crores liquidity, so that is something where we will always remain prudent and even though we had to pay Rs.105 Crores after three years, we will have enough cash to keep our business going.

Ankit Babel: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shailendra Agarwal from Agreya Capital Advisors. Please go ahead.

Shailendra Agarwal: Good afternoon and very good to see the progress that you have made after COVID. I had two small questions. One was the license fee that is payable. So while there is a fixed component and there is a variable component. Question was I was just coming from the telecom industry. Is there any dispute or grey area in terms of how this variable revenue sharing is computed?

R K Agarwal: Mr. Agarwal, there are two points which I would like to make here. First, I wish the license fees was entirely variable. Unfortunately, this is not variable, which is impacting us harder than it should have. Because, wherever there is a significant amount of license fees, in all those cases, we are paying fixed amount of fees because the revenue is not commensurate with that amount, so license fees is variable only after certain level. But till that level, it remains fixed and that is what is the pain for the industry. The second point madam will answer.

Apurva Purohit: There is no grey area at all. The formula has been very, very clearly defined in the GOPA itself. It is the higher of the fixed or the variable based on a formula. It is very simple.

R K Agarwal: It is unlike telecom. In telecom, whatever confusions happened, all those got addressed. Industry also was very much careful about these things. So while signing GOPA, all possible concerns were taken care of.

Shailendra Agarwal: Understood and thank you for the clarification. The second question that I had was with respect to your inorganic acquisition, which was announced and I guess, you also have a stake now in Reliance Network. My question was during COVID, have you seen or do you think there is impairment in the investment that you have made and any indication on when you are likely to get approval and would you need the competition permission after you get the ministry approval?

R K Agarwal: We do not have even a penny investment in Big FM. So rest of your questions automatically get addressed as not applicable, understood? Number two, TCI had already sent us notice, which we have clarified. Number third, technically, we may say that approval has not come, but basis experience of ours if it has not come so far it will never come and I do not think this deal will ever fructify.

Shailendra Agarwal: Thank you so much and all the best for going forward.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Purohit for her closing comments.

Apurva Purohit: Thank you everyone for joining us in this earnings call. As you know, the presentation is already uploaded on the website. Should you have any further questions, please do feel free to get in touch with any of us or with SGA. I wish you the very best of luck and seasons greetings in advance. Stay safe and take care. Goodbye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Music Broadcast Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.